

French Tech: What to expect in 2024?

After a challenging 2023, French startups will again need to demonstrate resilience in 2024. However, there are a few reasons for hope in this Olympic year.

Temps de lecture : minute

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Christmas and New Year barely digested, it's time for resolutions and predictions for 2024. After a challenging few years marked by inflation and geopolitical conflicts, morale is far from its zenith. However, Emmanuel Macron promises that "2024 will be a French vintage." The Head of State is obviously referring to the 80th anniversary of the Normandy Landing and the Paris Olympic Games, but can this enthusiasm be extended to the startup ecosystem?

It is evident that the year 2023 was not easy for French startups. After the post-Covid euphoria that propelled valuations of some companies to exorbitant, if not delirious, levels, the return to reality was harsh in the past year. There were much less spectacular fundraising rounds and an increase in layoffs (PayFit, Ledger, ManoMano, Ynsect...). Thus, mega-rounds exceeding or equal to €100M drastically decreased in 2023: there were about a dozen compared to around thirty in 2022.

Towards an increase in failures

This underlying trend is not expected to change during the first quarter of 2024, where the economic climate is expected to remain gloomy. Beyond

the difficulty of raising capital, except for startups in thriving sectors such as greentech, failures are expected to increase considerably. The end of 2023 gave a glimpse of these setbacks, with companies like *Luko*, *Carlili*, *Hopium*, and *Cityscoot* ceasing trading.

The current financing challenges, combined with the complete discontinuation of state financial support granted to overcome the pandemic, have accelerated the downfall of some startups. They saw their investment priorities abruptly change during 2022. After the era of hypergrowth, where aggression was necessary to capture market share, profitability is now coveted. While this paradigm shift is painful, it helps cleanse the ecosystem by returning to less exuberant fundamentals.

So, the first half of the year may not necessarily be more pleasant for startups, but the second half could offer more reasons for hope. The increases in the key interest rates of the European Central Bank (ECB), initiated in the spring of 2022, are expected to finally cease. With the battle against inflation on the verge of being won, according to Bruno Le Maire, the Minister of the Economy, and François Villeroy de Galhau, Governor of the Bank of France, the key interest rates in the Eurozone, which have exceeded 4% in recent months, should be lowered during the year by the ECB. A downward movement that should reignite investment in startups. However, no euphoria is expected as there is no intention to return to negative rates anytime soon. This should limit the creation of a new technological "bubble" in the medium term.

AI will boost the Venture Capital market, and more

While patience will be needed in many sectors, especially in fintech, which is suffering from the current financing crisis, some verticals can stand out. This is particularly true in artificial intelligence, where the excitement has not waned since the arrival of ChatGPT in late 2022. If

OpenAI seems to have a considerable lead in the United States, despite a tumultuous governance crisis last November, the French ecosystem is also showing real dynamism with gems like *Mistral AI*. Supported by *Cédric O*, Mistral AI recently raised €385M, proof of the enthusiasm it generates.

With other promising French startups in generative AI, such as Dust and Poolside, new mega-rounds of funding are expected in 2024. *Cathay Innovation* even estimates that all the ingredients are in place to make France the third global AI ecosystem. The fund led by Denis Barrier plans to mobilise between €50 and €100M in this direction. Sectors like deeptech and energy, such as Pasqal (quantum computing) and Verkor (electric batteries), should also attract investors in the coming months. This should bring back some vitality to a venture capital market that has been much quieter for the past 18 months.

Rather than taking risks with atypical projects, investors will also be tempted to back entrepreneurs who have already proven themselves. This is the case, for example, with Antoine Martin, co-founder of Zenly, who returned to the scene in late 2023 with *Amo*, a company with which he has already launched three applications, including one to revive the location-sharing app killed by Snap earlier in the year. For this venture, he successfully secured an initial funding round of \$18M.

With an application like *Location*, which adopts the elements that made Zenly successful, Antoine Martin and his team, made up of former Zenly employees, hope to create the largest European social network, and this time avoid being absorbed by an American giant. To achieve this, the financing chain of the French ecosystem will need to make more progress in the late-stage segment. This is imperative to prevent French gems from succumbing to the temptations of American and Asian giants.

Paul Midy, the Next Digital Minister?

In the current gloomy climate, there is still some good news for French startups since the aid measures recommended by deputy Paul Midy and integrated into the 2024 budget law are in force since January 1st. Among them is the possibility for young innovative companies (JEI) to retain this status, with an R&D spending threshold reduced to 10%, compared to the previous 15%. This measure could lead to the creation of 1,600 innovative companies each year according to Bercy, compared to 1,000 currently created. Another advancement is the introduction of tax incentives to involve individuals in financing innovative startups and SMEs. Paul Midy believes that this could increase funds raised by half a billion euros and create 30,000 to 50,000 more jobs in the next five years.

By positioning himself as the main architect of this new set of measures in favour of startups, Paul Midy has earned a prominent place within the ecosystem. His appearances at tech events have become more frequent over the past year. Consequently, more and more observers even predict a future role for him in the government to succeed Jean-Noël Barrot as the Minister Delegate for Digital. This hypothesis could gain traction in the coming days as a major government reshuffle is expected in January.

*2023 s'achève avec une bonne nouvelle
☐@EmmanuelMacron a promulgué la loi de
finances 2024 qui rend officielle au 1er janvier les
nouvelles aides pour les start-ups & PME
innovantes*

*Merci au Président de soutenir, depuis 2017, les
entrepreneurs qui innovent dans notre pays ☐☐*

pic.twitter.com/kXS65nVsHS

— Paul Midy (@midy_paul) December 31, 2023

Resilience will be severely tested

Nevertheless, the game is not over yet, and Jean-Noël Barrot will have arguments to defend. He finds himself on the front lines in the context of the second wave of the Tibi initiative and to defend France's position on AI in Brussels. The minister has also updated the criteria for the Next 40 and French Tech 120 to better reflect the vitality of the ecosystem.

The ecosystem will have to shine with resilience this year, even though the prospect of the Olympics this summer may allow some actors to shine, especially those in travel tech, who now benefit from a dedicated program, and in sports tech. However, some observers anticipate a particularly difficult year given the current context. "To say that the ecosystem is resilient is a joke. It's a bloodbath right now," said Pierre Gaubil, a seasoned French entrepreneur who lived in the heart of Silicon Valley for a long time, a few months ago. The next quarters will confirm or refute this perception.