

As France's software sector grows, the narrative in Europe will fundamentally change for the better

The French tech sector is fulfilling its long-held potential, and this is something that Europe's venture capital investors should be excited about. For years, the narrative of European tech has focused on the UK and Germany.

Temps de lecture : minute

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Once upon a time, the numbers backed this up - rewind the clock ten years, and France was comfortably outpaced by their UK/German counterparts in terms of VC funding raised. But, the state of play has changed. France leapfrogged Germany in Dealroom's latest league table.

This is phenomenally positive news, not just for France; but for the continent at large. A strong French tech and software industry is good news for everyone. If a major European nation cultivates a strong tech scene, this increases availability and liquidity of talent at a continental level; it will ensure that there are more opportunities for experienced talent to work in startups and scale-ups; not to mention it will create more founders, who will then become 'serial entrepreneurs' if they continue to start and grow businesses.

For venture capitalists, of course, this increased volume is good news. If France's software scene continues to grow, there will be more innovative companies in which to invest.

Also, the French tech scene has a particular characteristic: it is truly 'innovative'. Compared to other European 'tech cities' it is not encumbered by a cast-iron link to an incumbent industry, such as financial services. Therefore, French tech talent can focus its energies on building truly bleeding edge tech.

This is particularly clear in AI, with two of the top five fundraises in 2023 coming from AI firms. In addition to growing large companies, France has also demonstrated its capability to nurture big exits led by WebHelp's \$4.8B deal. Therefore we think that the French business software sector is prime to explode over the next five or so years, and we expect a huge uptick in interest from both European and global VCs.

Despite annually declining VC investment of the last couple years, confidence is high. Bolstered by a paddock of recently minted unicorn AI companies founded in France. Already in 2024, the likes of Mistral, H Company, and FlexAI have raised significant sums relatively early in their journey. Portable generative AI company Mistral stands out in particular, adding a €468M Series B to their monster Seed and Series A rounds closed in 2023. With US giants Nvidia, Microsoft, Salesforce, and Snowflake on their cap table, Mistral demonstrates that global players are not just watching the French software scene with interest, but are not shy to put their money where their mouth is.

Opportunity: business software

Business software, (the evolution of B2B SaaS and Cloud) encompasses a wide range of cutting-edge solutions, from artificial intelligence and quantum computing to blockchain, has witnessed remarkable investment and development in recent years.

According to data from Dealroom, business software companies accounted for a staggering 45% of the total investment in France in 2022,

a testament to the confidence investors have in the potential of this sector. However, by the end of 2023, this figure had dropped to 32%, reflecting the turbulent economic climate and the need for resilience in the face of challenges.

Why the shift? Why now?

Look no further than the pandemic. How it happened is more interesting; Business software investment in France increased by 40.6% to \$7.2B in 2022, surpassing the 7% increase in investment seen across Europe as a whole. Both France, and Europe saw a dramatic downturn in investment in 2023 of -59%.

Over the course of 2021 and early 2022 US investors flooded the French (and broader European) ecosystem with capital, a heady mix of high uncertainty, and high liquidity. Home-grown funds like *bpifrance*, XAnge, Daphni and Partech have been backing their own for a number of years, but ramped up investment in French firms significantly - which, alongside substantial government support through the likes of La French Tech, has resulted in rapid ecosystem development.

Enabling massive success for other companies

One of the key strengths of the business software sector lies in its ability to enable the success of other companies across a wide variety of industries. Europe has long been regarded as an emerging market, playing second fiddle to the US. But, by providing cutting-edge solutions that streamline operations, enhance productivity, and drive innovation, business software companies play a pivotal role in facilitating the growth of their clients - here, and across the pond.

While the French business software ecosystem has experienced

remarkable growth, it is not without its challenges. The report highlights the headwinds and tailwinds that companies in this sector must navigate as they strive for continued success in an increasingly turbulent economic climate.

Adapting to the current climate

As with other business software ecosystems, the French sector has witnessed consolidation of the workforce, illustrative of the flight to quality and efficiency in light of the current economic climate. This adaptation has been crucial for companies to weather the storm and position themselves for future growth.

Despite the challenges, the value of French business software exits picked up in 2023, totalling \$5.6B and representing 41% of all French tech realisations. This figure is a testament to the ecosystem's capability to incubate and grow unicorns, with the majority of the exit value being attributed to Webhelp, a leading customer experience company.

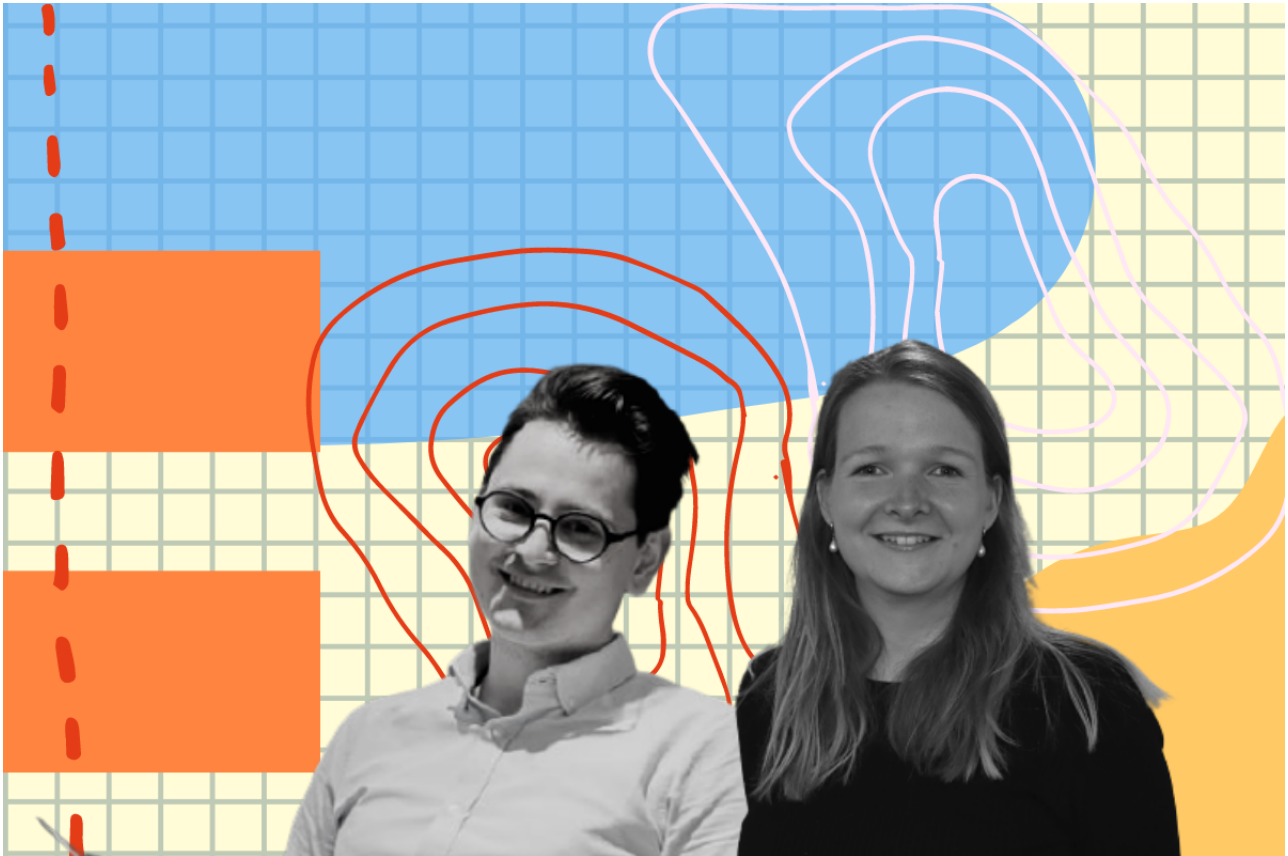
Room for growth

With strong investment in business software over the past few years and a record value in 2022, French companies in this sector make up a lower proportion of the tech ecosystem value (17%) than the European average (30%), illustrating room for growth. The diversity and strength of the French tech ecosystem as a whole provide fertile ground for an increasingly competitive domestic business software ecosystem.

The French business software ecosystem is growing from strength-to-strength, and is primed to deliver globally competitive companies, and monster returns for the VCs that back them.

Dr. George Windsor, Director of Research and Intelligence at *Notion*

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