

SOCIAL AND ECONOMIC PERFORMANCE OF FRENCH DIGITAL BUSINESS STARTUPS

Barometer 2019

SEPTEMBER 2019

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EDITORIAL

**For the 8th edition of the barometer, 356 startups answered to the survey.
Here are the key messages of this edition:**

1 _ GROWING INTERNATIONALLY: A KEY AREA OF FOCUS

French Digital startup ecosystem has been especially dynamic over the last decade and led to the emergence of globalized scale-ups! Participating companies to the 2019 Edition follow this trend and pursue their growth, as revenue went up by 20% vs. 2017, to reach €6.6B in 2018. Indeed, this growth is primarily driven by French unicorns' worldwide expansion, even if, more than ever, newly emerging startups manage to rapidly operate outside France.

Growing internationally remains a key area of focus for French startups: more and more digital startups set up at least one office outside France to develop cross-border business (55% of the respondents in 2018 confirmed that they opened at least one international office) and revenue outside France now represents more than 61% of total revenue. As a reminder, in the last Edition, only 56% of total revenue was generated outside France (+5 points vs. 2018 Edition). Even though revenue generated on the French market increased more significantly, i.e. +26% compared to 2017, more than revenue made outside the national borders (+16% of international revenue growth between 2017 and 2018), French Digital startups manage to confirm their ability to quickly grow internationally.

In 2018, Europe has been the sweet spot for the respondents, who sharply improved their sales there.

Operating performances of French Digital startups seduce more and more International investors: 32% of respondents have a foreign VC that already invested in the company. The respondents accelerate faster than ever thanks to the fuel brought by investors. More than 60% of respondents reached serie A and a quarter reached serie B fundraising.

2 _ RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

Scaling up requires to hire qualified talents in various fields. Between 2017 and 2018, the respondents' staff grew by 19% (24% excluding TOP 3 employers). Entrepreneurs show confidence in the future as, in average, digital startups plan to hire an average of 32 people in 2019 and keep relying on the French academic excellence, 80% of jobs being created on the French territory. Diversity in staff is a major advantage for companies and French startups are fully engaged in such way: 40% of employees are women, +10 points compared to 2017. However, only 7% of CEO are women.

Even if the priority is still to hire highly qualified people (master degree and Phd for 75% of employees), using permanent contracts for 94% of their employees, the social model is evolving as new hires are looking for another work experience nowadays: 86% of digital startups allow to work remotely, 71% of the respondents declare contracting with freelancers, mostly thanks to their personal network. More and more people, in R&D especially, choose to freelance instead of being employed. Focused on innovation, young startups dedicate 36% of their staff cost in R&D cost.

Recruiting talent is still the main barrier of development that digital startups' Management has to face! The most important profiles to hire are sales/marketing/customers success teams for 57% of participants but the most difficult profiles to recruit are programmers/developers for 48% of companies solicited.

3 _ FRANCE AS ONE OF THE LEADING HOTBEDS FOR DIGITAL STARTUPS

To enable startups to emerge and to accelerate their growth, French regulation has set up several incentive plans dedicated to innovative companies. Some of the figures disclosed in the 2019 Edition confirm the attractiveness of such tools and confirm the success of such incentives: 60% of participants use research tax credit, 50% use innovation tax credit and 46% use the label "Young Innovative Company".

Moreover, equity sharing is probably one of the most efficient way for startups to retain talents: in 2018, 55% of capital is held by founders or employees. Equity instruments mostly used are warrants (BSPCE & BSA) as confirmed by 86% of the respondents. Such data demonstrates the absolute necessity to maintain the tax advantages related to such options.

More than half of the digital startups use business incubator or accelerator to support them, most of them being private ones (49%). It is especially true for young startups as 65% of startups incorporated less than five years ago use incubators or accelerators. In 2018, 3 over 4 French startups consider dynamism of the regional ecosystem as at least productive, 35% of them qualifying it as very productive. From a European perspective, Germany and UK are the two first markets on which French digital startups have developed or are wishing to develop their operations.

4 _ FRENCH ENTREPRENEURS INTEND TO SCALE EVEN FASTER IN THE NEAR FUTURE!

In order to scale faster, French Digital startups are focusing on both expanding their operations but also building a viable and reliable business model. If only 15% of the 0 to 5 M€ revenue startups have positive EBIT, 57% of the participants are profitable when generating more than 50 M€ of revenue. Nearly 60% of the respondents chose to develop a SaaS and subscription-based model to optimize recurring revenue, offering better visibility on future financial performance.

Moreover, thanks to more significant external fundings and a favorable ecosystem, entrepreneurs are very optimistic and ambitious for the future, as 63% of them expect to increase their revenues by more than 50% in 2019. Venture capital investments in France are going up sharply and fundraising process are shortened: 73% of respondents raised funds in less than six months in 2018. Better funded, startups want to pursue their expansion mainly through organic growth but also through external operations, as 35% of startups plan external acquisitions to pursue their development.

The amount of funds raised during 2019 first semester is the best demonstration that building French Digital unicorns is possible and that investors have faith in the capacity of French founders to succeed on a global scale.

Franck SEBAG
Partner, EY

Clara AUDRY
Investment Director, Cap Horn Invest

1 METHODOLOGY

- Barometer based on data from digital business startups financed by venture capitalists, business angels, corporate ventures...
- Survey sent by venture capitalists to companies they invested in
 - 356 participants (293 participants in 2018)
 - Average age: 6,8 years
 - 15 M€ invested by VC (average)
 - Key figures from financial data 2017 & 2018
- EY, as a third-party, consolidates the data and ensures that the figures are kept confidential

A large audience is seated in a theater, facing a stage. A speaker is standing on the stage, addressing the audience. The theater has ornate decorations, including large circular skylights on the ceiling and a statue on the stage. The lighting is dim, with blue and purple hues. A large number '2' is overlaid on the image.

2

EXECUTIVE SUMMARY



GROWING INTERNATIONALLY: A KEY AREA OF FOCUS

- **+20%** of revenues vs. 2017
- **61%** of revenues are generated abroad in 2018
- **55%** of startups have already set up offices abroad
- **32%** of respondents have a foreign VC that already invested in the firm
- **200%** of growth of median fund raised vs. 2016



FRANCE AS ONE OF THE LEADING HOTBEDS FOR DIGITAL STARTUPS

- **60%** of startups use research tax credit
- **50%** of startups use innovation tax credit
- **46%** of startups use the label « Young Innovative Company »
- **55%** of share capital held by founders and employees
- **51%** of digital startups are using incubators or accelerators



RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

- **+19%** of employees vs. 2017 (+24% excluding TOP 3)
- **20%** of jobs created abroad in 2018
- **94%** of permanent contracts
- **71%** of startups contractualized with freelancers
- **7%** of CEOs are women
- **75%** of employees have a master degree or a PhD
- **Sales & Marketing** are the most wanted profiles to recruit in 2019
- **40%** of employees are women (+10 points compared to 2018 Edition)



FRENCH ENTREPRENEURS INTEND TO SCALE EVEN FASTER IN THE NEAR FUTURE!

- **57%** of startups have positive « EBIT » when reaching €50M of revenues
- **37%** of companies expect a revenue growth above 100% in 2019
- **32** employees is the average number of hiring scheduled in 2019
- **35%** plan external growth to pursue their development

A large audience is seated in a theater, facing a stage. A speaker is standing on the stage, addressing the audience. The theater has ornate decorations, including large circular skylights on the ceiling and statues on the walls. The lighting is dim, with blue and purple hues. A large number '3' is overlaid on the image.

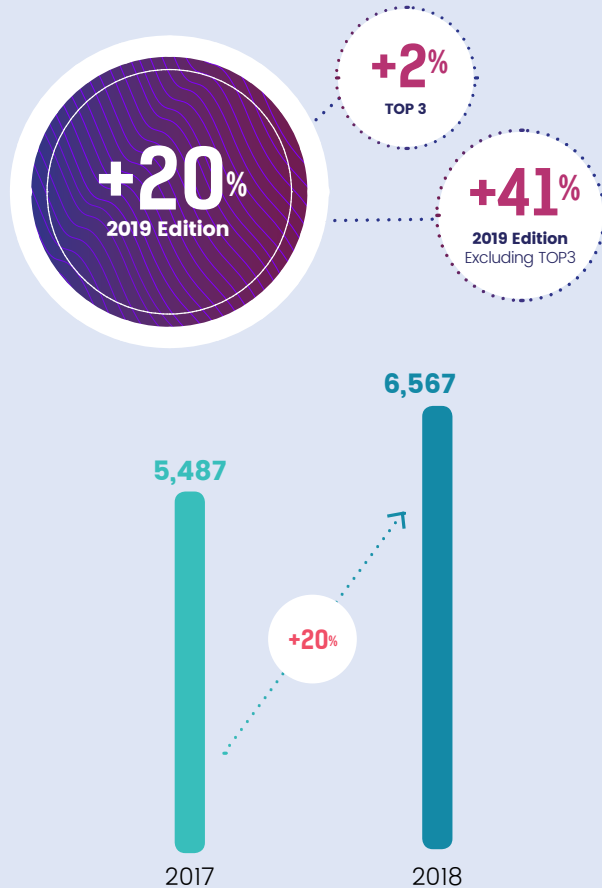
3

KEY FIGURES

3.1 GROWING INTERNATIONALLY: A KEY AREA OF FOCUS

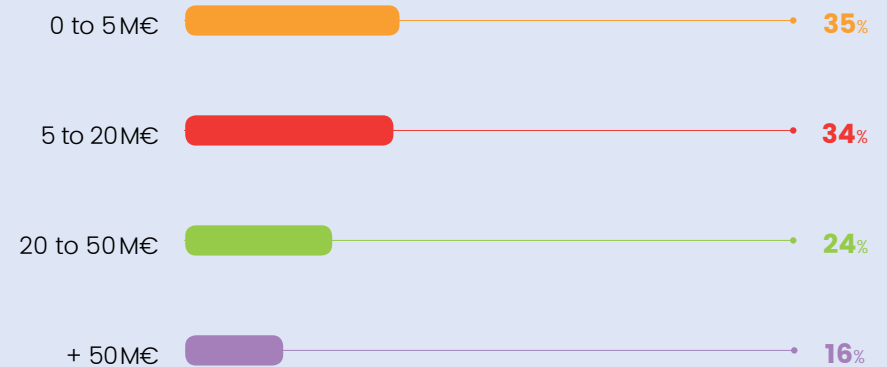
→ Total revenues (in M€)

Sample of 318 startups



→ Growth of total revenues

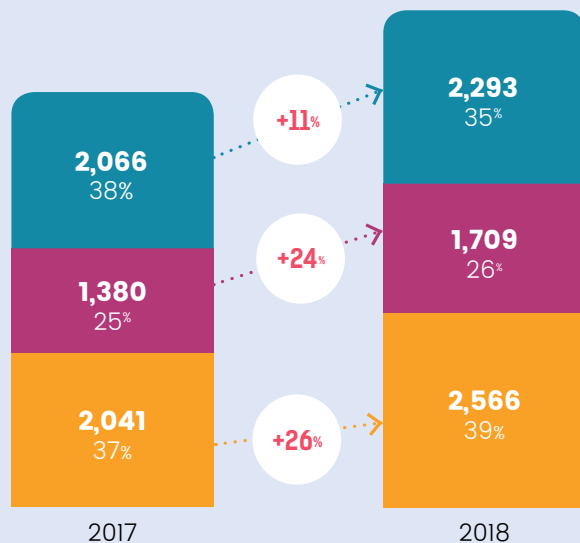
Analysis by revenue segment



3.1 GROWING INTERNATIONALLY: A KEY AREA OF FOCUS

→ Growth of revenues (in M€)

Sample of 318 startups



→ Growth of revenues

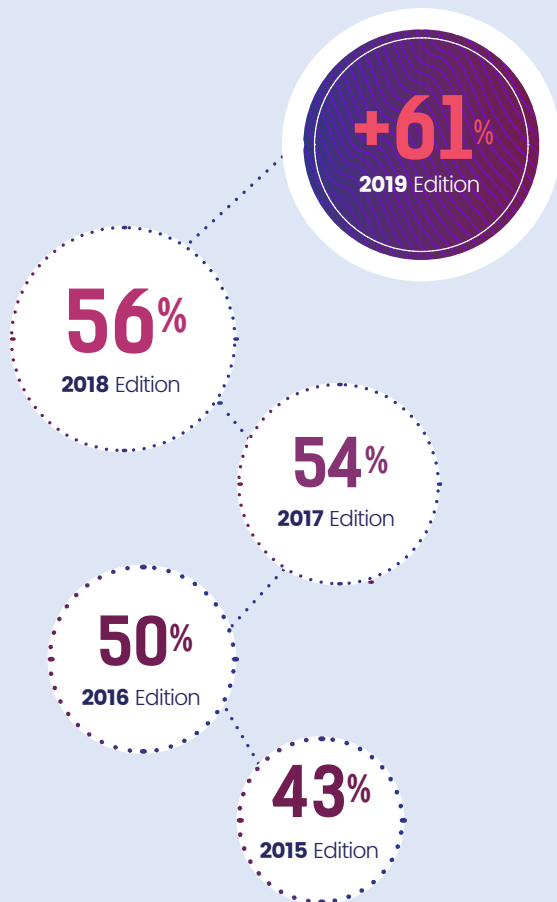
Analysis by revenue segment



● France ● Europe ● International

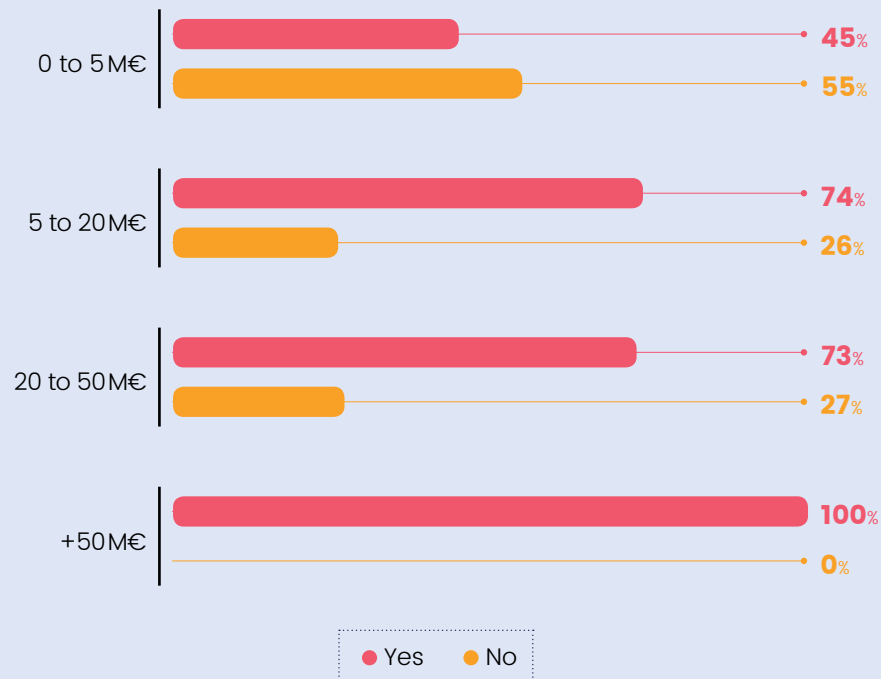
3.1 GROWING INTERNATIONALLY: A KEY AREA OF FOCUS

→ Part of revenue outside France over the total revenue
(within the last five editions of the barometer)



→ % of startups that have set up an office abroad
to pursue their international expansion

Sample of 156 startups

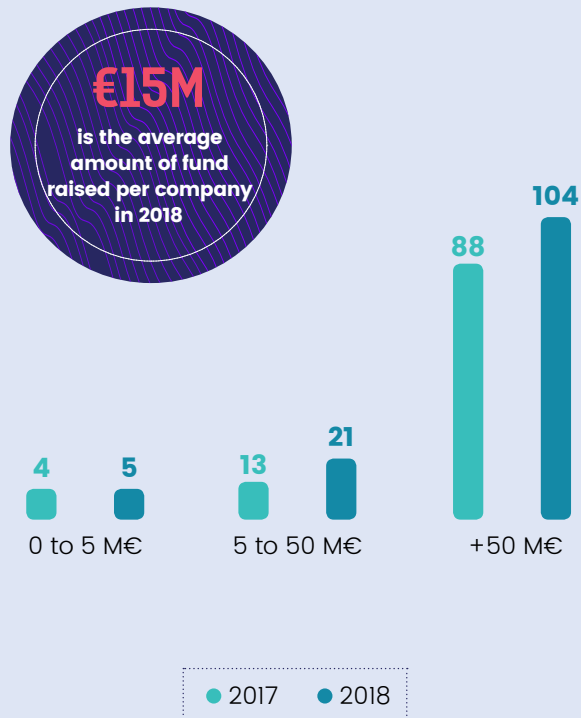


3.1 GROWING INTERNATIONALLY: A KEY AREA OF FOCUS

→ Average of fund raised since the creation including IPOs

Analysis by revenue segment

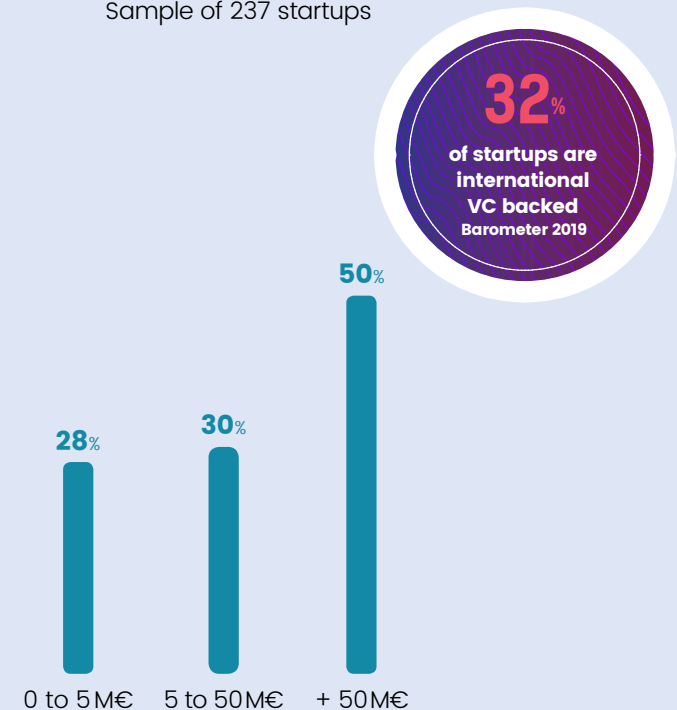
Sample of 322 startups



→ Percentage of startups that are International VC-backed

Analysis by revenue segment

Sample of 237 startups



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

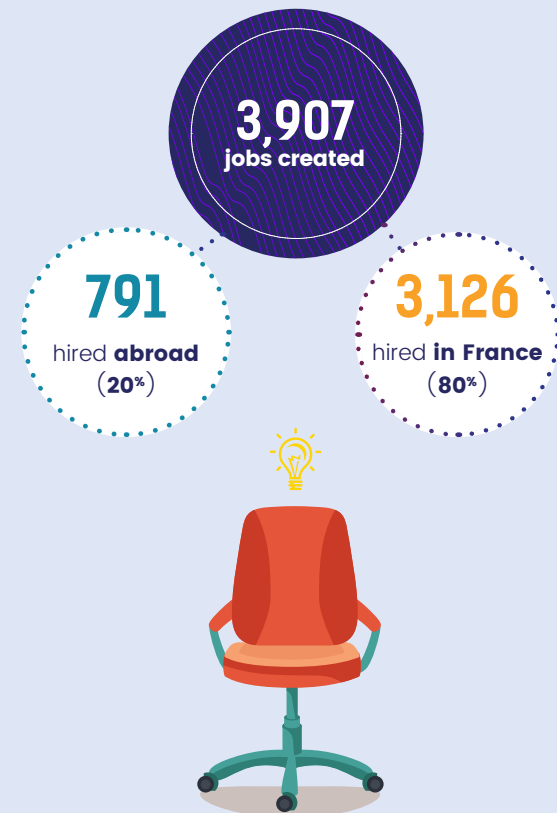
→ Growth of employees

Sample of 271 startups



→ Segmentation of employees by geographical areas

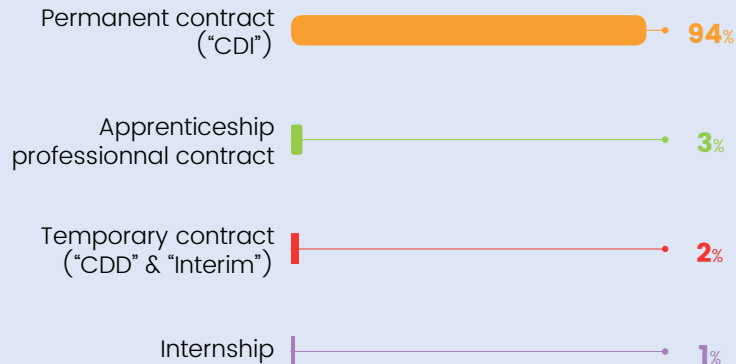
Sample of 271 startups



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

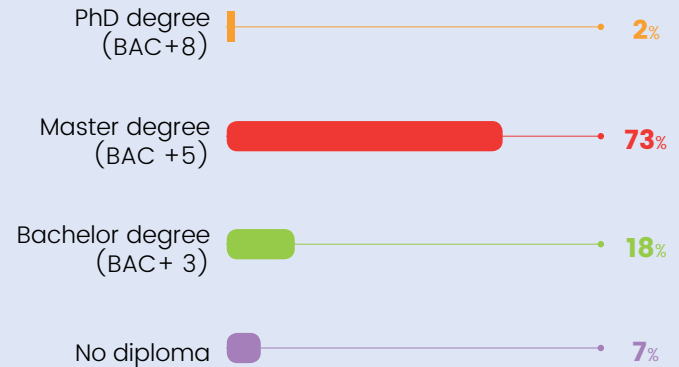
→ Type of work contracts (2018)

Sample of 40 startups



→ People qualification (2018)

Sample of 60 startups



→ Part of women employees in 2018

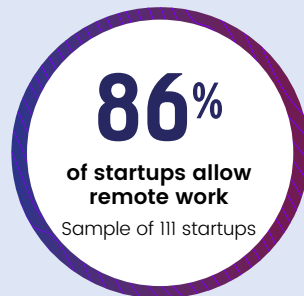
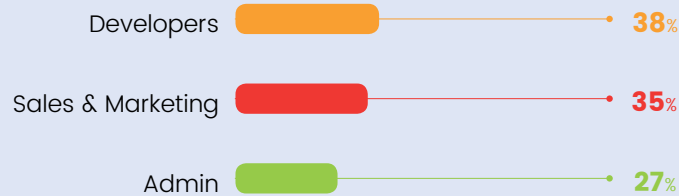
Sample of 95 startups



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

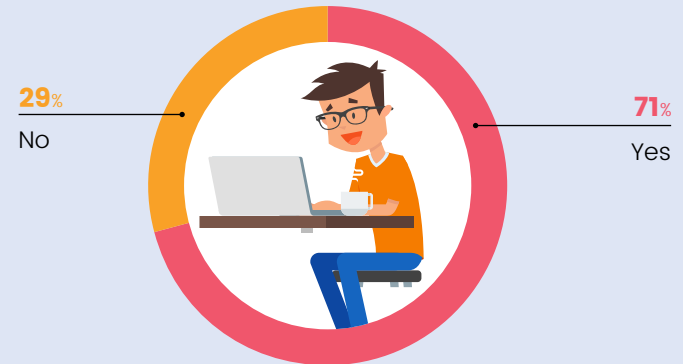
→ Teams working remotely

Sample of 97 startups

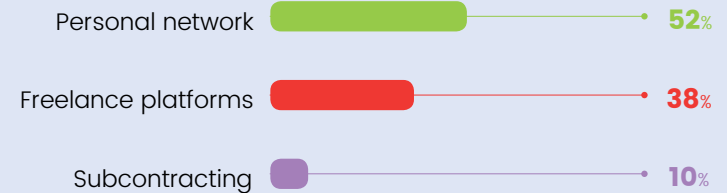


→ Do startups contractualize with freelancers?

Sample of 118 startups



→ If yes, how do you find the freelancers?



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

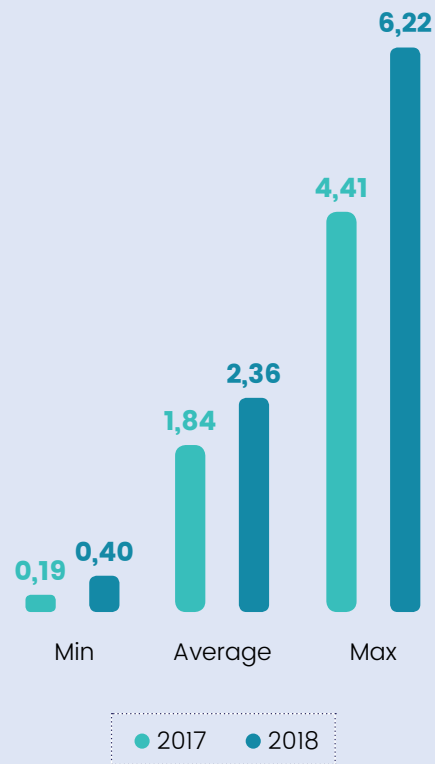
→ Average age

Sample of 111 startups



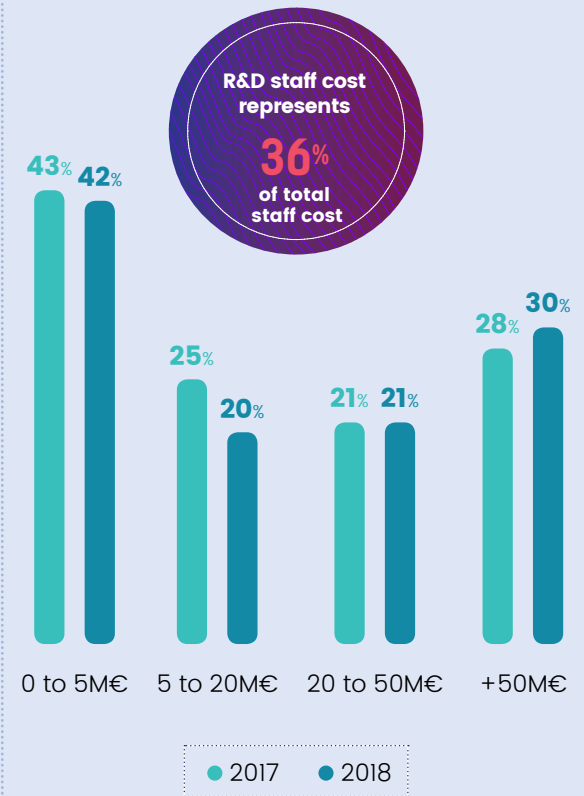
→ Ratio Management/Staff wages

Sample of 44 startups



→ % of R&D staff cost on staff cost by revenue segment

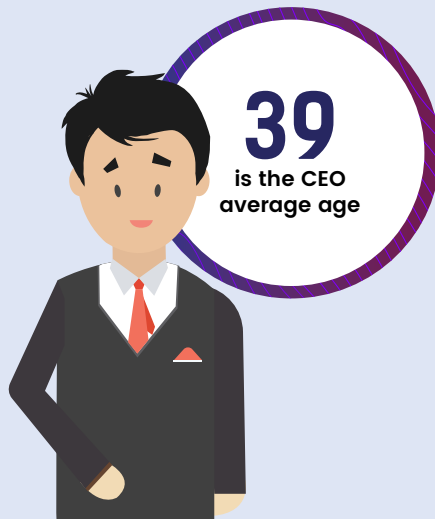
Sample of 78 startups



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

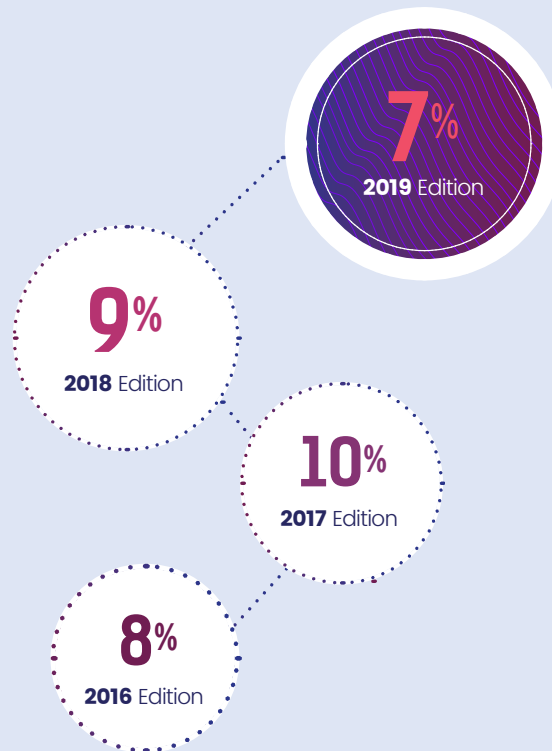
→ CEO average age

Sample of 117 startups



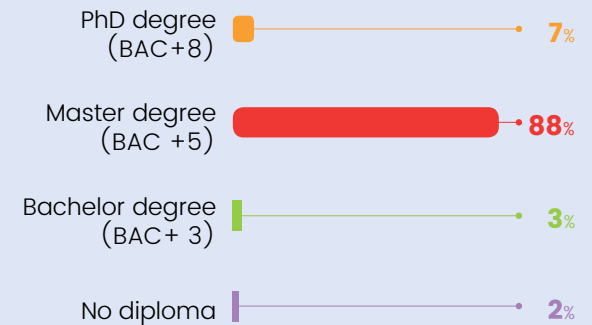
→ Women Chief Executive Officer

Sample of 123 startups



→ CEO Graduation

Sample of 116 startups



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

FOCUS ON RECRUITMENT FOR THE YEAR 2019

→ Most important profiles to recruit in 2019

Sample of 115 startups



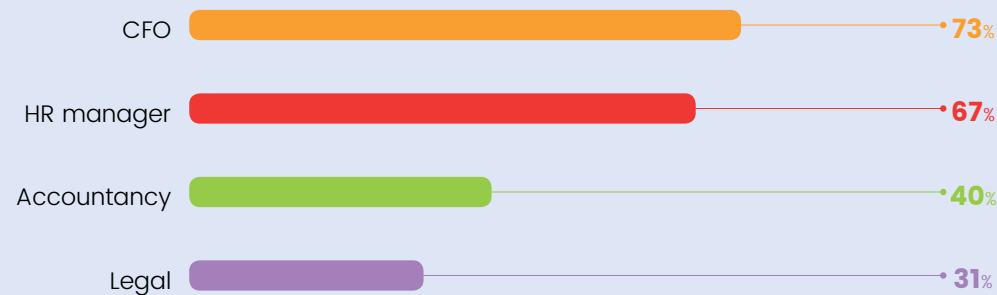
→ Most difficult profiles to recruit in 2019

Sample of 111 startups



→ Internalized functions in startups

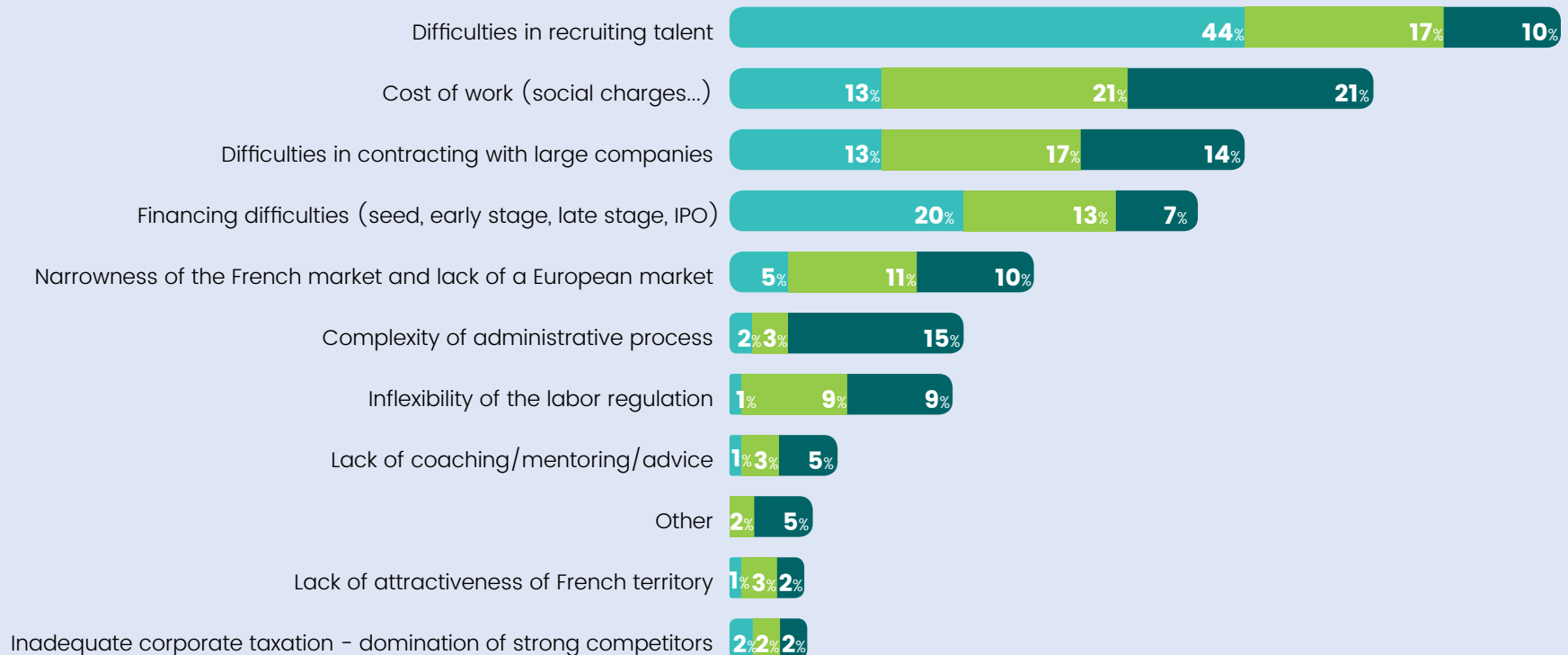
Sample of 119 startups



3.2 RECRUITING TALENTS: N°1 CHALLENGE TO SCALE!

→ Top 5 barriers for development

Sample of 123 startups

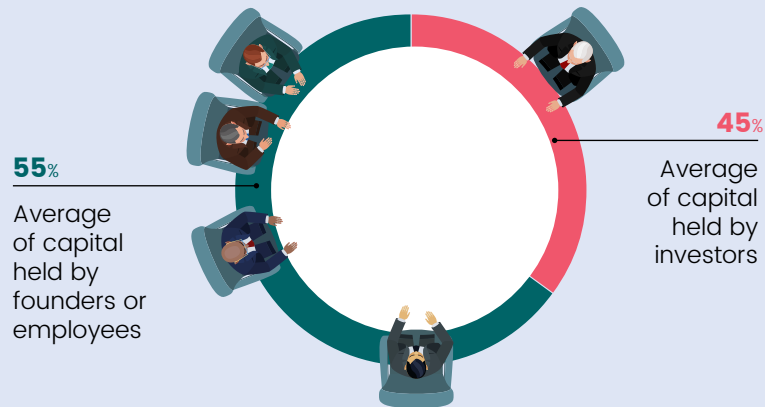


● 1st choice ● 2nd choice ● 3rd choice

3.3 FRANCE AS ONE OF THE LEADING HOTBEDS FOR DIGITAL STARTUPS

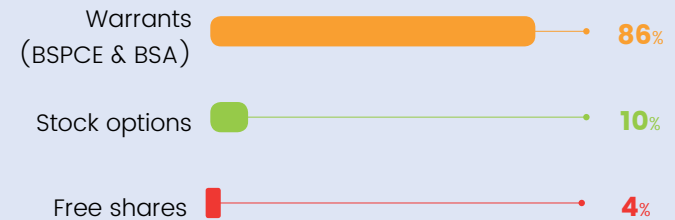
→ Percentage of share capital held by owners and employees

Sample of 266 startups



→ Types of Equity instruments

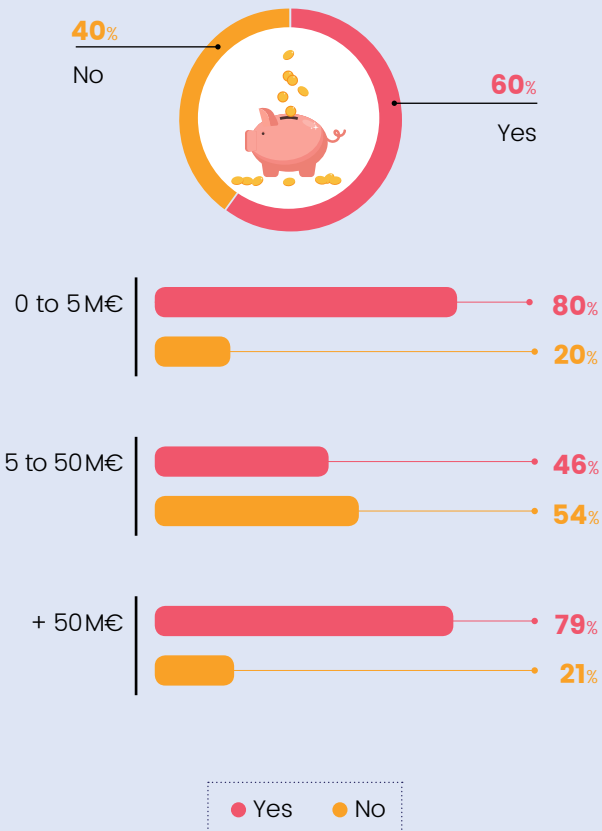
Sample of 71 startups



3.3 FRANCE AS ONE OF THE LEADING HOTBEDS FOR DIGITAL STARTUPS

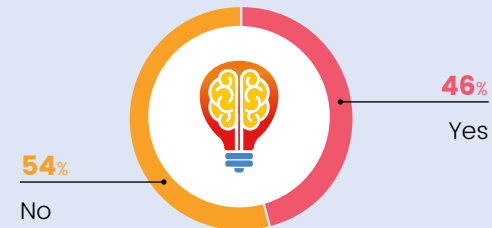
→ Did you use the Research tax credit?

Sample of 113 startups



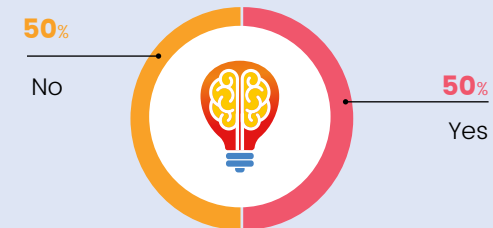
→ Did you use the label Young Innovative Company?

Sample of 113 startups



→ Did you use the Innovation tax credit?

Sample of 107 startups

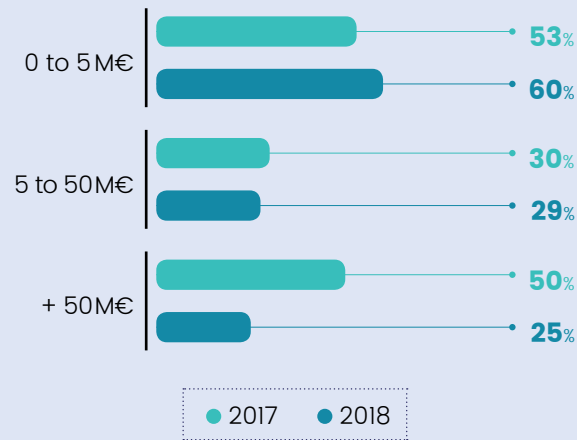


3.3 FRANCE AS ONE OF THE LEADING HOTBEDS FOR DIGITAL STARTUPS

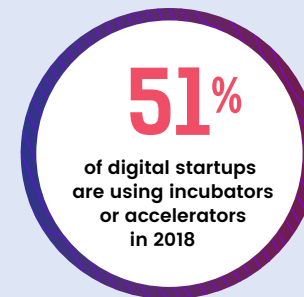
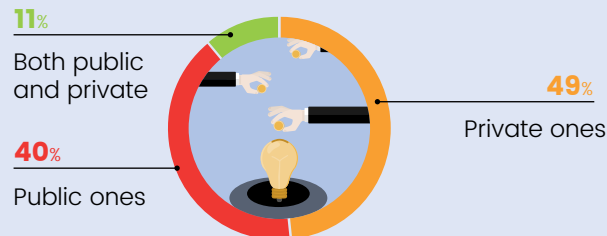
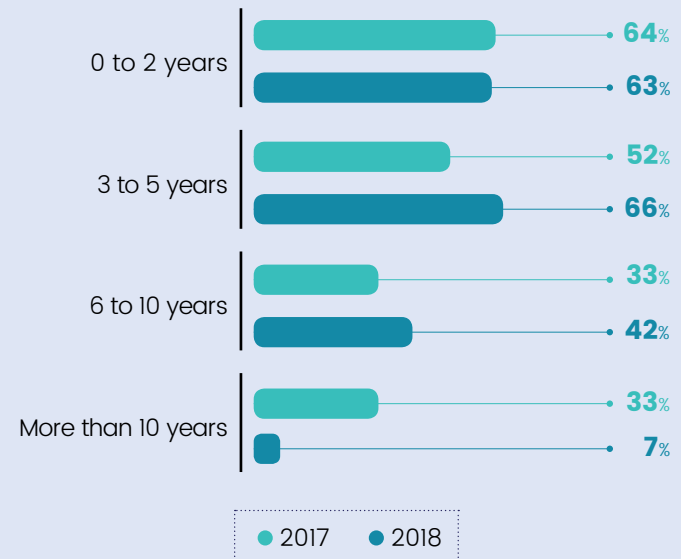
→ Did you use business incubators or accelerators?

Sample of 110 startups

Analysis by revenue segment



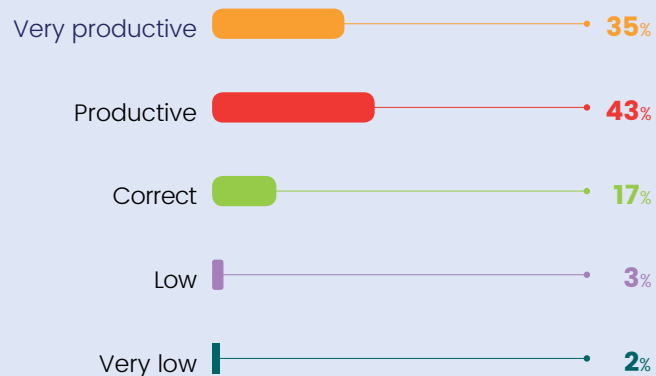
Analysis by startups age



3.3 FRANCE AS ONE OF THE LEADING HOTBEDS FOR DIGITAL STARTUPS

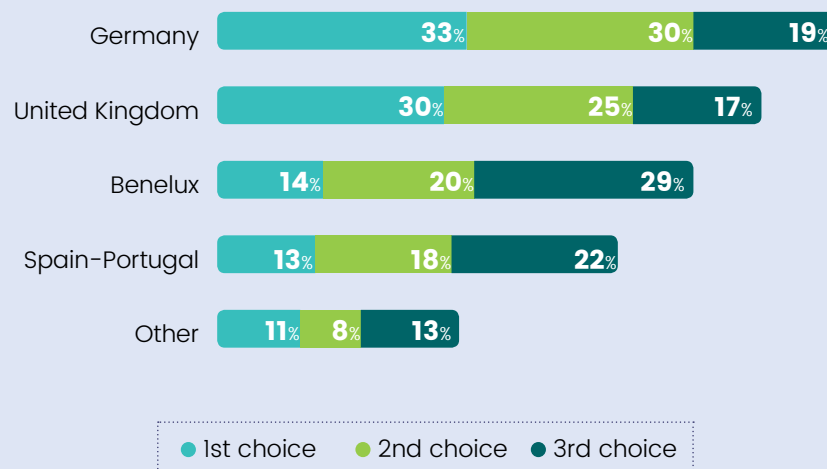
→ Dynamism of ecosystem in the area you are based in France

Sample of 114 startups



→ Which is the first European market on which you have developed or on which you wish to develop your business?

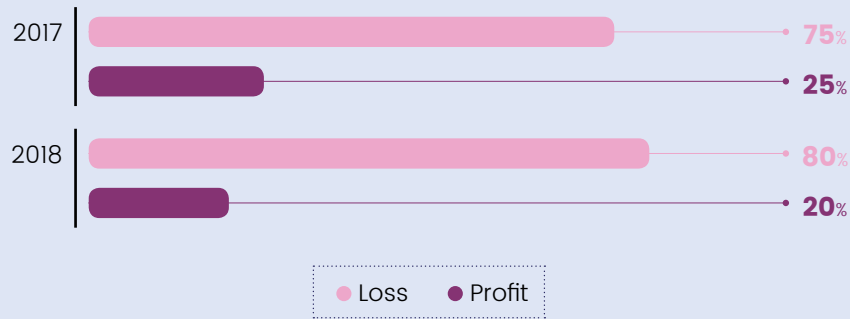
Sample of 103 startups



3.4 FRENCH ENTREPRENEURS INTEND TO SCALE EVEN FASTER IN THE NEAR FUTURE!

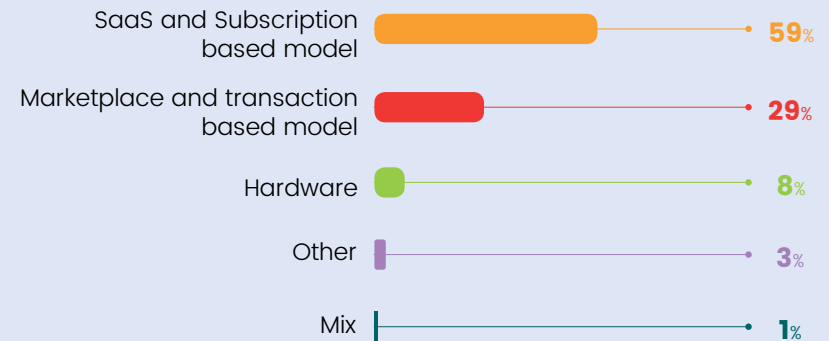
→ « Earnings before interests and taxes » or EBIT

Sample of 188 startups



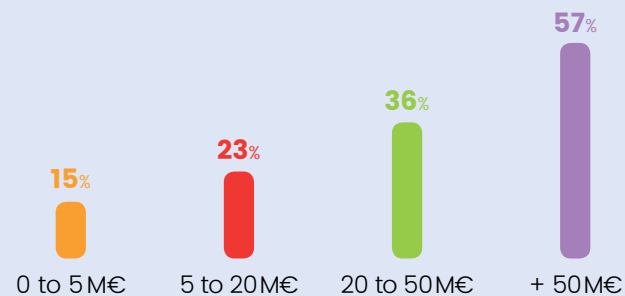
→ Business model

Sample of 328 startups



→ Percentage of positive « EBIT » by revenue segment

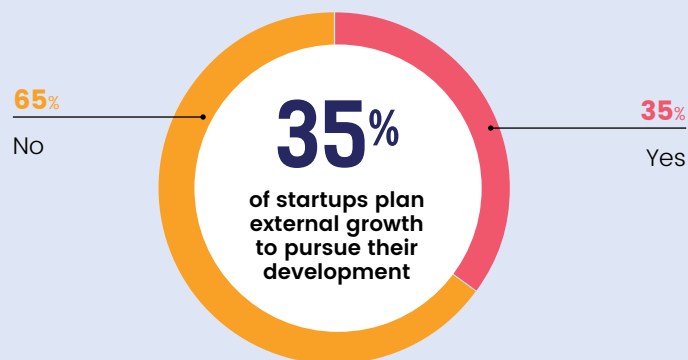
Sample of 188 startups



3.4 FRENCH ENTREPRENEURS INTEND TO SCALE EVEN FASTER IN THE NEAR FUTURE!

→ Do you plan external growth to pursue your development?

Sample of 112 startups



0 to 5M€ 33%

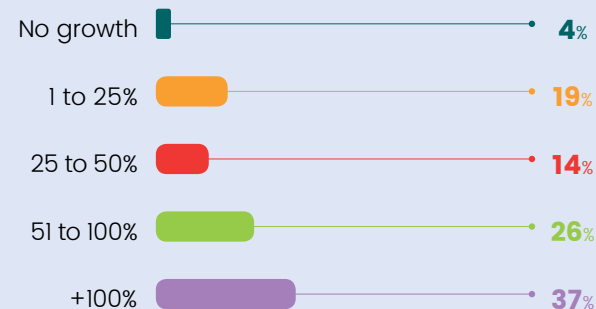
5 to 20M€ 33%

20 to 50M€ 71%

+ 50M€ 25%

→ Revenue growth expectation for 2019 according to companies participating to the survey

Sample of 107 startups



→ Focus on recruitments for the year 2019

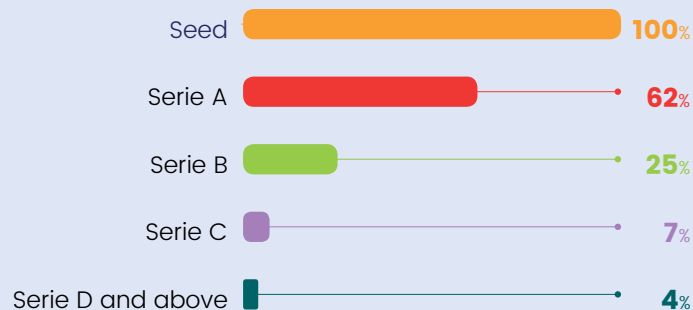
Sample of 115 startups



3.5 FUNDRAISING AND CASH OUT: A REALITY

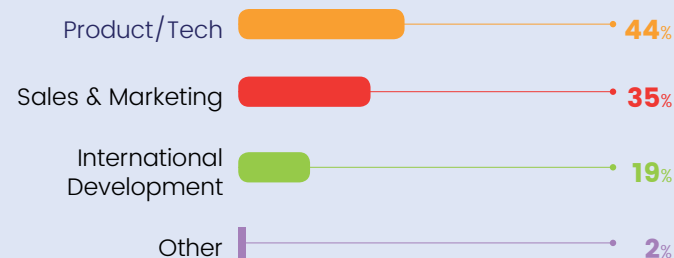
→ Fundraising stage reached

Sample of 321 startups



→ Uses of fund raised

Sample of 113 startups



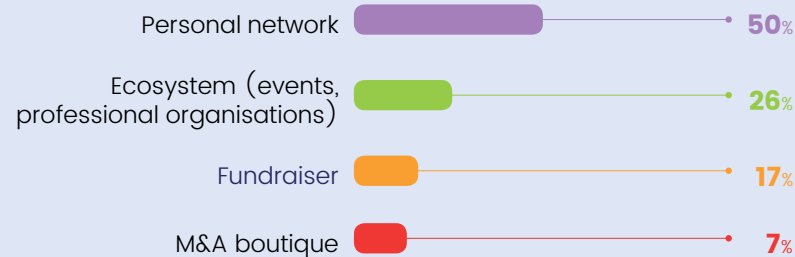
→ Fundraising timeline

Sample of 108 startups



→ Fundraising process

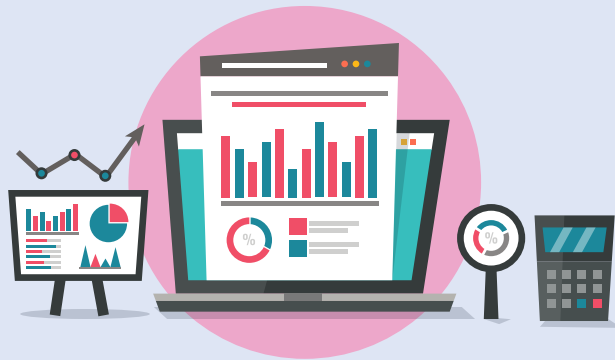
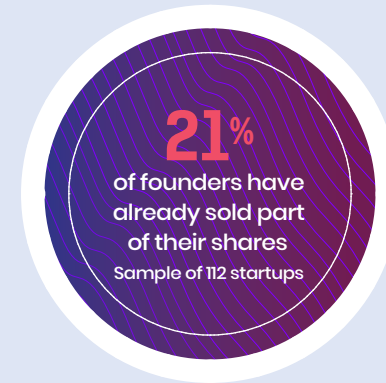
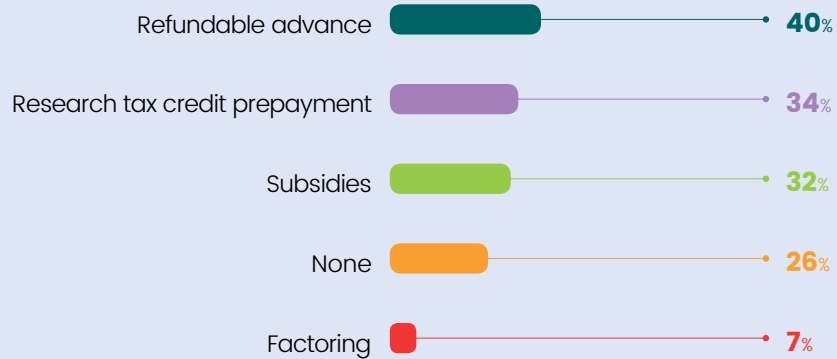
Sample of 111 startups



3.5 FUNDRAISING AND CASH OUT: A REALITY

→ Non dilutive financing means used by startups

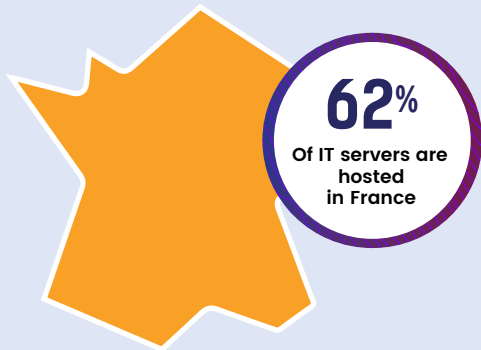
Sample of 148 startups



3.6 Data: the treasure to be explored and secured

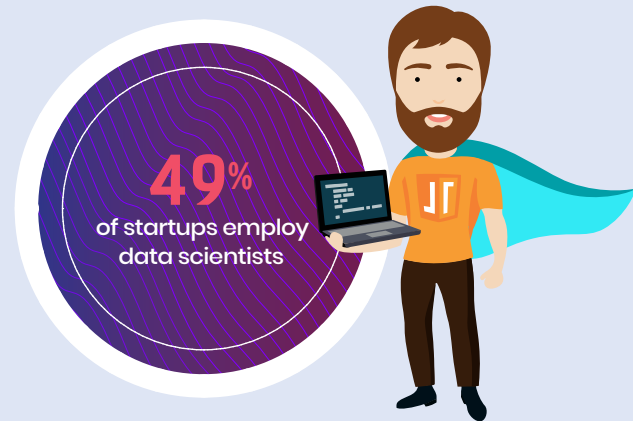
→ IT hosting servers location

Sample of 60 startups



→ Data scientists in startups

Sample of 116 startups



CONTACTS

**Clara
AUDRY**



Investment Director
CapHorn Invest
caudry@caphorninvest.com

 [@clara_audry](https://twitter.com/clara_audry)

**Franck
SEBAG**



Partner, in charge of Fast Growing companies
department & IPO Western Europe & Maghreb,
EY

franck.sebag@fr.ey.com

 [@frsebag](https://twitter.com/frsebag)

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