



► 25 février 2017

French entrepreneurs

## Less misérable

PARIS

The rise of "deep tech" startups boosts the French capital's digital scene

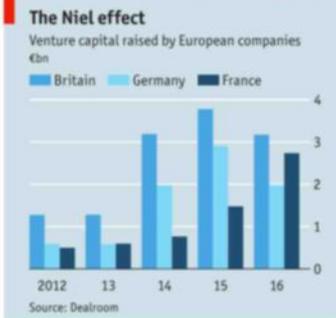
EUROPE will never create a hub of tech firms and investors to rival Silicon Valley, many experts on entrepreneurship concur. Its markets are still fragmented along national lines, flows of capital into the region are limited and because of lingering, conservative attitudes to risk, few startups grow to rival American champions. "Europe is toxic", argues Oussama Ammar, an outspoken founder of an incubator in Paris. "Life that should happen, does not happen", he says.

But some digital life does flourish, spread among cities rather than fixing in one spot. Fintech firms cluster in London. Gamers and music-sharing sites do well in the Nordic countries. Berlin has a crop of companies that go beyond the kind of me-too consumer sites incubated by Rocket Internet, a notorious startup factory: new companies with expertise in the "internet of things", for example. Milan, with strong medical universities, has flourishing biotech startups.

The most striking case of fresh growth is in Paris. Mention of France has long elicited sighs from venture capitalists. Its rigid labour laws and hefty taxes on wealth and on stock options have meant that Silicon Valley has more than its fair share of entrepreneurial French immigrants. Efforts by the government to help startups with tax relief for research have mostly taught founders to complete forms rather than win clients, say observers. Genuine local successes—such as BlaBlaCar, a ride-sharing service, or Criteo, which serves targeted ads online—looked like exceptions, not evidence of wider success.

Yet recently, Nicolas Brusson, a co-founder of BlaBlaCar, says he has witnessed an upsurge in entrepreneurial ambition in France. A venture-capital investor says there has been a "huge shift in mindset" among founders of firms: they are now expert not only as inventors but as designers of business plans. Henning Piezunka at INSEAD, a business school near the capital, says that a "new vibe" and a more global attitude are also evident in the widening use of English.

Venture capital is beginning to gush. Last year France saw 590 rounds of capital raising, more than any country in Europe, according to Dealroom, which watches tech-industry trends. Although slightly more capital went to startups in Britain (€3.2bn) than in France (€2.7bn), the rate of increase in France was dramatic (see chart).



One reason for the French gains is that earlier investments in infrastructure for startups are starting to pay off. Established business figures, such as Mr Ammar and Xavier Niel, who started Iliad, France's fourth-largest mobile operator, which owns the brand Free, have set up training facilities and incubator firms that are now producing entrepreneurs. Four years ago Mr Niel (pictured) co-founded 42, a computer-programming school with a capacity of 2,500 students that charges no tuition fees. It trains programmers even from unexpected corners such as the capital's troubled housing projects, and has opened a sister campus in Fremont, California, near Silicon Valley, encouraging ties.

Mr Niel's next step, in April, will be to open what he says will be the world's largest incubator, called Station F, in central Paris. It will have over 3,000 workstations. Last month Facebook's Sheryl Sandberg

said her firm will take spaces in Station F, lauding French talent. She said the country now has "some of the most innovative technology companies in the world".

The main factor behind all the new activity is a change in graduates' aspirations. A member of the board of one engineering school near the capital says that there is clearly new entrepreneurial ambition among students, especially those who do an internship with a startup abroad. He estimates that a fifth of graduates from his school now try launching their own firms, a big increase on five years ago.

Graduates are particularly keen on startups in the so-called "deep tech" sector—involving, among other things, artificial intelligence (AI), machine learning and big data. Philippe Botteri of Accel, a venture-capital fund, who oversees investments in Europe, says 80% of his firm's activity these days is in deep tech, an area in which Europeans, often in possession of specialised and further degrees in engineering and maths, have advantages. France has emerged fastest in the last few years as a top destination for capital, he says, largely because its graduates have particular strength in these fields.

Julien Lemoine, for example, co-founded Algolia, a startup with funds from Accel that provides customised search services using AI. From an office with glass walls in central Paris (and from a sister office that opened in San Francisco in 2015) his firm serves 2,300 paying clients globally—two-thirds of revenues come from America. Algolia will employ 200 people by the end of the year, up from 60-plus now. His staff only speak English. From the start Algolia sought clients globally, while tapping a local pool of recruits. Those hired in France, notes Mr Lemoine, are far more loyal than job-hopping staff in Silicon Valley.

It is a similar story at Shift Technology, a Paris-based firm founded by three maths graduates. It uses AI to detect fraudulent insurance claims on behalf of big insurers. Jeremy Jawish, one of the firm's co-founders, says Paris is a suitable space to grow simply because it is "the next AI centre". When he was in university, the dream was to be a banker in London but "now everyone is excited about AI startups", he says. Cisco and Facebook have both set up AI operations in Paris to attract local talent, he notes.

The old problems have not vanished, of course. Stiff labour laws still make firing permanent staff difficult, a particular headache for young, fragile firms. But here, too, change may be in the air. At least one candidate competing in the upcoming presidential election is well-disposed towards the technology sector. Emmanuel Macron championed digital growth when he was economy minister; this week in London he urged French expats to come home "to innovate". France might have been slow to get started, but it is catching up fast. ■