

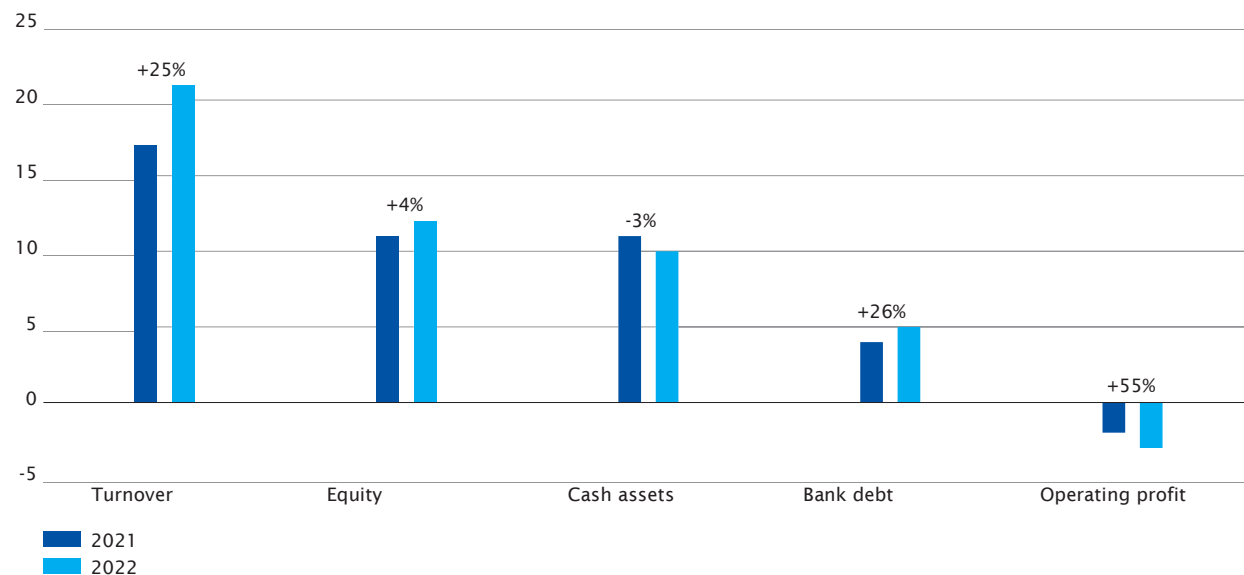
FINANCIAL POSITION OF START-UPS IN 2022

Although French start-ups raised new record amounts of funds in 2022, the rise in interest rates and macroeconomic uncertainties that emerged in the summer weighed heavily on the financial ecosystem. The figures recorded for 2022 only partially reflect this paradigm shift:

turnover and headcount grew by more than 20% on average, equity and cash flow have stabilised, while negative operating profits are growing. Consequently, debt and bond financing is on the increase.

CI Changes in the financial position of start-ups in 2022

(2022 vs 2021 balance sheet, in billions of euros)



Source: FIBEN - main financial aggregates of 2,445 start-ups.

Analysis of 2,445 balance sheets of start-ups prepared at end-2021 and end-2022

In France, the term "Start-up" is neither a legal nor a statistical category. A recent INSEE publication shows that this concept encompasses different situations.

However, according to the Banque de France a start-up differs from a traditional company if it has at least the following three main characteristics:

- It has high growth potential.
- It uses or creates a new technology.
- Its financing needs are often met by raising funds.

To carry out this study, we:

- Collected the balance sheets of companies identified as start-ups in our [FIBEN](#) databases at 30 June 2023 and selected those meeting at least one of the following two criteria:
 - > A turnover of over EUR 750 000 in 2021 or 2022,
 - > Funds raised of over EUR 3 million.
- Checked and classified these firms by sector of activity with the help of our network of regional [start-up correspondents](#), who assign a Banque de France rating to them (see box),
- Reviewed these retrievals using data available on the websites of [Dealroom](#) (data base) and [Le Hub](#) (BPI France).
- Lastly, we excluded companies that have been listed ([i.e. those start-ups that launched an IPO - maddyness.com](#)) whose market financing model falls outside the scope of this study.

This sample included 2,445 start-ups. Before drawing any economic conclusions from this sample, we note that:

- 47% of start-ups are headquartered in the Ile-de-France region, 11% in Auvergne Rhône-Alpes, 7% in Occitanie and PACA, 5.6% in Nouvelle-Aquitaine and Hauts-de-France, 4% in the Grand Est region, 3.4% in Pays-de-la-Loire and Brittany, and 2% in Normandy and Burgundy-Franche-Comté.
- The average age of the start-ups in this study is 10.5, and half are between 7 and 13 years old. 62% of CEOs are aged between 35 and 55, with a median age of 44. 88% of the legal representatives are men and 12% are women.

The activity of start-ups grew by 25% on average in 2022

The growth in start-up turnover is twice that recorded for VSEs and SMEs

In 2020, the activity of start-ups providing digital solutions was boosted by the health crisis and in 2021, this growth accelerated on the back of the general economic recovery. In 2022, growth momentum has continued against a backdrop of high inflation and rising interest rates. [Macroeconomic projections](#) of growth and inflation for the French economy through to 2025 were used to analyse these trends.

Percentage change in turnover of French VSEs/SMEs and start-ups

Period	2020/2019	2021/2020	2022/2021
VSEs (microentreprises)	-2.5	12.5	13.1
SMEs (excluding microentreprises)	-4.8	11.6	12.0
Start-ups	10.0	30.0	25.0

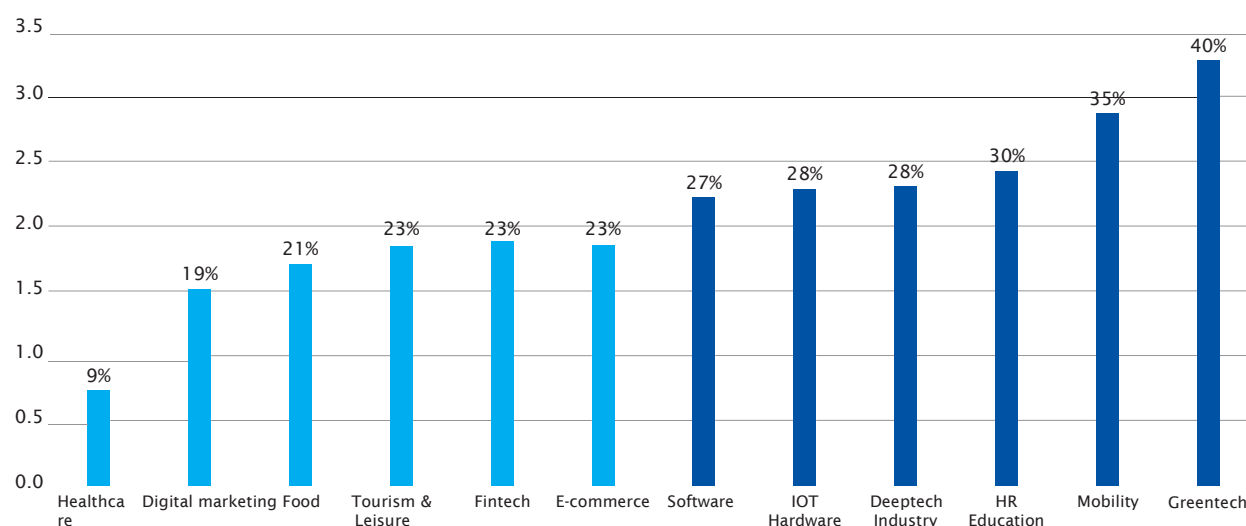
Sources: VSEs and SMEs: [Banque de France Bulletin No. 246 -6 May- June 2023](#);

Start-ups: [Financial position of start-ups in 2021](#), [Financial position of start-ups in 2020](#).

A sector-based approach is required to analyse this growth

The turnover of the start-ups under review amounted to EUR 21.7 billion in 2022, up 25% year on year. The picture differed from one sector to another.

Year-on-year growth in turnover by sector of activity in 2022



Source: Banque de France start-up correspondents (sectoral classification) FIBEN (percentage change in turnover).....

- **Greentechs** delivered cumulative turnover of €3.2 billion in 2022, compared with €2.3 billion in 2021, a jump of 40%. More specifically, start-ups that produce or supply green energies have enjoyed a big increase in their turnover as a result of tensions on global oil and gas markets.
- **Digital marketing** and e-commerce companies and marketplaces account for one-quarter of the turnover of all start-ups. According to a [FEVAD](#) report, 42 million French people buy online, reflecting a fundamental underlying shift in purchasing behaviour.
- Start-ups in the **human resources** sector are benefiting from the popularity of online training and digital recruitment and their turnover has surged by over 30%.
- **Software, hardware** and the Internet of Things (IOT) are also delivering double-digit growth as they help drive the digital transformation of businesses, underpinned by the acceleration of innovations such as artificial intelligence and cloud computing.
- Start-ups in the **health** sector (biotech, medtech, e-health) are doing well despite a fraught business environment dominated by investor mistrust and sluggish financial markets (see Focus box).
- The [French fintech sector is holding its own](#) thanks to mature start-ups with a big global presence. According to France Fintech, France boasts a number of European and even global champions in this sector.
- Start-ups in the **tourism** sector provide online accommodation and travel agency solutions, consolidating a second year of growth in the wake of the Covid shocks. **Leisure** start-ups include gaming businesses (video games) and they tend to be exceptionally dynamic.
- **Deeptech industry** businesses deliver disruptive innovations. We are interested in all sectors but we focused especially on start-ups in robotics, semi-conductors, composite materials and nano-satellites. These start-ups benefit from support programmes and their turnover has grown by 28% year on year.
- **Food** start-ups grew their turnover by 21% despite rising raw material prices. This is a sector with great potential in which turnover remains relatively small in terms of societal challenges.
- **Mobility** start-ups (gentle mobility, car-sharing, electric vehicle recharging, etc.) provide solutions to decarbonisation challenges and rising energy costs and their turnover leapt by 35% year on year.

Start-ups continue to hire in big numbers

The 2,445 start-ups under review employed a cumulative average of 103,700 people at the end of 2022, compared with 85,600 one year earlier (up 21%). In terms of where jobs are located, Île-de-France continues to be the most dynamic region with 63,000 jobs (24% more than in 2021). It accounts for 60% of the national total, compared with 9% for Auvergne Rhône-Alpes (up 19%), 7% for Occitanie (up 19%), 6% for the PACA region (up 13%), and 5% for Hauts-de-France (up 17%).

The average start-up employs 45 people and the median number of employees is 23. This variance reflects the different stages in start-up development: we find an average of 40 employees in start-ups that have completed a Series A round of funding, 85 for a Series B round, and 206 employees in start-ups that have completed a Series C round, and so on.

Capital is invested in growth, debt is more in demand

The record amount of funds raised in 2022 (EUR 13.5bn across the ecosystem) appears to have been largely invested in growth, since the equity capital of start-ups in our sample increased by only 4%. At EUR 12.4bn, it represented 31% of total assets, compared with 33% last year. 20% of the start-ups in our sample had negative equity.

Bank debt rose by 26% to EUR 5.4bn. It is an additional, increasingly popular source of finance, representing 44% of equity compared with 37% in 2021. 83% of start-ups use borrowing and the median value of debt is EUR 703k.

Less than 10% of start-ups use bridge financing in the form of bond issues. These operations amount to EUR 1.1 billion in additional funding compared to EUR 825 million for 2021 (up by 33%). This instrument is generally used by both longstanding and potential investors who take advantage of the opportunity to increase their capital stake.

Start-ups are preserving their cash position, negative operating profits are increasing

In cumulative terms, the cash balances of the start-ups in the sample totalled EUR 10.8 billion at the end of 2022, compared with EUR 11.2 billion at the beginning of the year. Start-ups have preserved their cash assets despite strong growth in activity and jobs.

Contrary to popular belief, not all start-ups are loss-making: 37% generate positive operating profit amounting to EUR 0.9 billion, compared to 63% with negative operating profit totalling nearly EUR 4.6 billion. The balance for the sample as a whole is therefore negative (to the tune of EUR 3,715 million). Year-on-year, negative operating profit grew by 55%, from -EUR 2.4 billion to -EUR 3.8 billion, representing a loss of 17%

of turnover in 2022, compared with 14% in 2021. The [French Tech 2030 programme](#) has identified 125 start-ups working on breakthrough innovations to meet the challenges of the ecological transition or relocate certain cutting-edge sectors. (The Banque de France, with its network of correspondents, is one of the programme's partners).

Insolvency rates are still low but climbing

Of the 2,445 start-ups included within the sample, 13 are subject to legal proceedings: only 2 date from 2022 and 11 from 2023 (2 in the first quarter and 9 in the second). The insolvency rate is low (0.5%), however it reflects the difficulty of raising funds for projects that are too far from profitability or on the basis of valuations that have been revised downwards. The start-ups in our sample are mature (average age: 10.5 years) and the withdrawal of late-stage investors may lead them to refocus their strategy.

The Banque de France reiterates that the [Credit Mediation Service](#) remains fully mobilised to help businesses that may be encountering financing difficulties or require more time to repay their state-guaranteed loans.

What is the outlook for start-ups in 2023?

Lower amounts of funds raised and a shift towards funding early-stage ventures

According to the [EY Venture Capital Barometer](#) published on Monday 10 July, start-ups raised €4.3 billion in the first half of 2023, down 49% in value terms on what was a record first half in 2022. The study also points out that the number of deals by volume rose by 9%.

These findings were shared by [In Extenso](#), whose report stresses that financing is being reallocated to seed funding, while the number of “mega rounds” is declining due to the withdrawal of late-stage investors and a general decline in valuations.

The first half of the year witnessed a plethora of initiatives to support start-ups

- Investor representative body French Tech Finance Partners submitted a [report](#) in April aimed at creating a “deeptech” label for start-ups together with investment funds to finance them.
- National Assembly member, [Paul Midy](#), submitted a report containing proposals to support investment in innovative start-ups and SMEs and to make funding more widely available.
- Institutional investors have pledged to invest EUR 7 billion euros in the sector by 2026, as part of the [Tibi 2 initiative](#) to finance the development of technology companies.

- The European Investment Bank is also launching the [European Tech Champions Initiative](#), a fund-of-funds designed to help European tech growth funds finance European scale-ups.

Start-ups continuing to recruit

Despite the absence of “mega-funding”, employment in French Tech rebounded in the first half of the year, with almost 14,000 new jobs created between May and June (source: [Numeum](#)).

According to a survey by [France Digitale x Actual Group](#) based on a database of 13,000 start-ups, one in every 25 jobs created in France is attributable to start-ups, which are expected to create some 50,000 jobs in 2023.

Focus: healthcare start-ups in 2022

“In 2022, healthcare start-ups continued to do well despite a fraught business environment”

After two record years in terms of amounts raised by healthcare start-ups across the world, 2022 was characterised by a more difficult macroeconomic environment. The downturn in the financial markets, rising interest rates, inflation and the complex geopolitical situation have put the brakes on the sector's international financing momentum. Nevertheless, according to the France Biotech annual report*, with EUR 2.6 billion raised in 2022 – including EUR 1.7 billion in venture capital – France has not fared too badly. The amount of funds raised grew by 13% year on year (for all types of equity financing) and by 14% in the case of venture capital (source: Panorama France HealthTech 2022). The sector has never witnessed as many funding operations in excess of EUR 30 million.

However, most of these funds were invested in mature companies (series C and D rounds of funding) and listed companies rather than in young start-ups. Series A deals were much less common amidst greater project selectivity and a certain reluctance on the part of investors in the sector, who preferred to refocus on tried and tested investments.

Public banks (Bpifrance and the European Investment Bank (EIB)) invested at higher levels than in previous years. For example, as part of France 2030 and the three healthcare acceleration financing programmes, Bpifrance stepped up its funding drive in 2022, with more than EUR 1 billion allocated to the healthcare sector (including EUR 460 million worth of investment).

The Tibi 2 initiative is also very good news for the industry with financial support to help start-ups and innovative companies to grow.

Lastly, the sector is generating strong employment momentum, reflecting the big need for people to help businesses scale up. For example, headcount in the HealthTech sector jumped 35% year on year and 86% of start-ups included in the study were planning to hire in 2023.

“In the present uncertain macro-economic climate, we need to respond collectively to a number of challenges in order to make France more attractive. We need to reintroduce industrial policy into healthcare innovation across the country, accelerate innovation development pathways, and rethink how the healthcare system can deliver these solutions to patients and professionals as quickly as possible. The roll-out of France 2030 is an opportunity that we all need to seize in order to meet these challenges.”

Franck Mouthon, President, France Biotech

*About France Biotech

France Biotech is an independent association founded in 1997 to bring together France’s leading healthtech companies and their expert partners. As a leader in the health innovation ecosystem and go-to body for public authorities in France and Europe, France Biotech’s mission is to help healthTech meet current sector challenges (financing, tax treatment of innovation, regulatory issues and market access, etc.) and come up with practical solutions in terms of competitiveness and attractiveness, through the work of its committees and working groups. The idea is to help start-ups and SMEs in the sector to become international high-performers capable of rapidly designing and developing new innovations and making these accessible to patients. France Biotech is hosted at ParisSanté Campus <http://www.france-biotech.fr/>.

The Banque de France rating factors in the specific features of start-ups

Each year, the Banque de France assigns a [rating](#) to more than 300,000 businesses with a turnover of over

EUR 750,000.

In 2020, it deployed a network of [start-up correspondents](#) in each region and [French Tech capital](#) to support and rate these companies while taking account of the specific features of this growth model.

Because of start-up business models, recurring losses are common, but not necessarily indicative of a weak financial position. Indeed, their cash flow and financial structure are sometimes quite strong, thanks to effective support from the ecosystem and the fundraising this generates.

In four years, the number of start-up balance sheets in the [FIBEN](#) database has increased by a factor of 3.5, reflecting the strength of the tech sector and the resilience of this growth model.

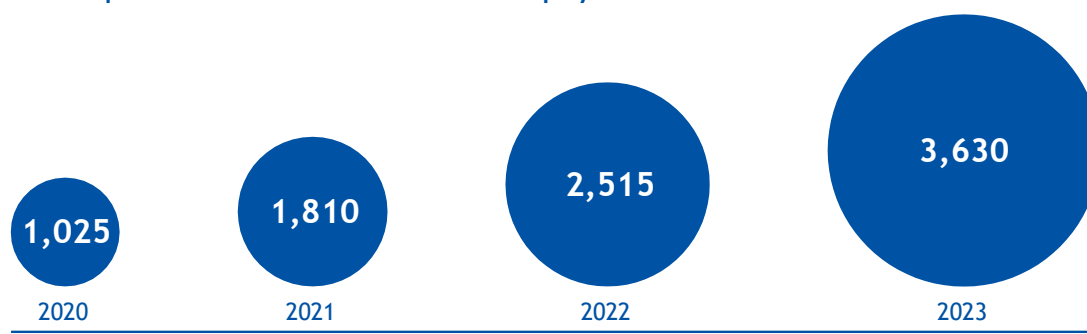
In 2022, out of 2,515 businesses identified using a start-up indicator, 2,200 were rated and almost 40% were subject to a [rating interview](#) designed to gain a better understanding of the business’s trajectory.

The Banque de France has increased its [rating scale](#) to 22 notches (up from the previous 13) to provide a more accurate assessment of a company’s financial health. The new scale also brings the rating methodology into line with the requirements of the Banque de France’s European statutes, especially the objective of more effective assessment of risks and a company’s resilience to these risks.

The legal representative of any company rated on the basis of an analysis of accounting documents is informed of the rating assigned to the company in a letter from the head of the relevant network unit or their representative. In the same letter, the unit extends an invitation to hold an interview. If the legal representative contests the decision or wishes to obtain further information, a meeting is arranged by the analyst to explain the reasons for the rating assigned.

We encourage CEOs and CFOs to initiate or engage in dialogue with our [start-up correspondents and analysts](#) so that the specific features of their growth model may be analysed more effectively.

C3 Number of start-up balance sheets included in the FIBEN company database



Source: Banque de France start-up correspondents – FIBEN (reference with a start-up indicator base).