WHITE PAPER

Post Series-A bankruptcies in the French ecosystem

ScaleX Invest

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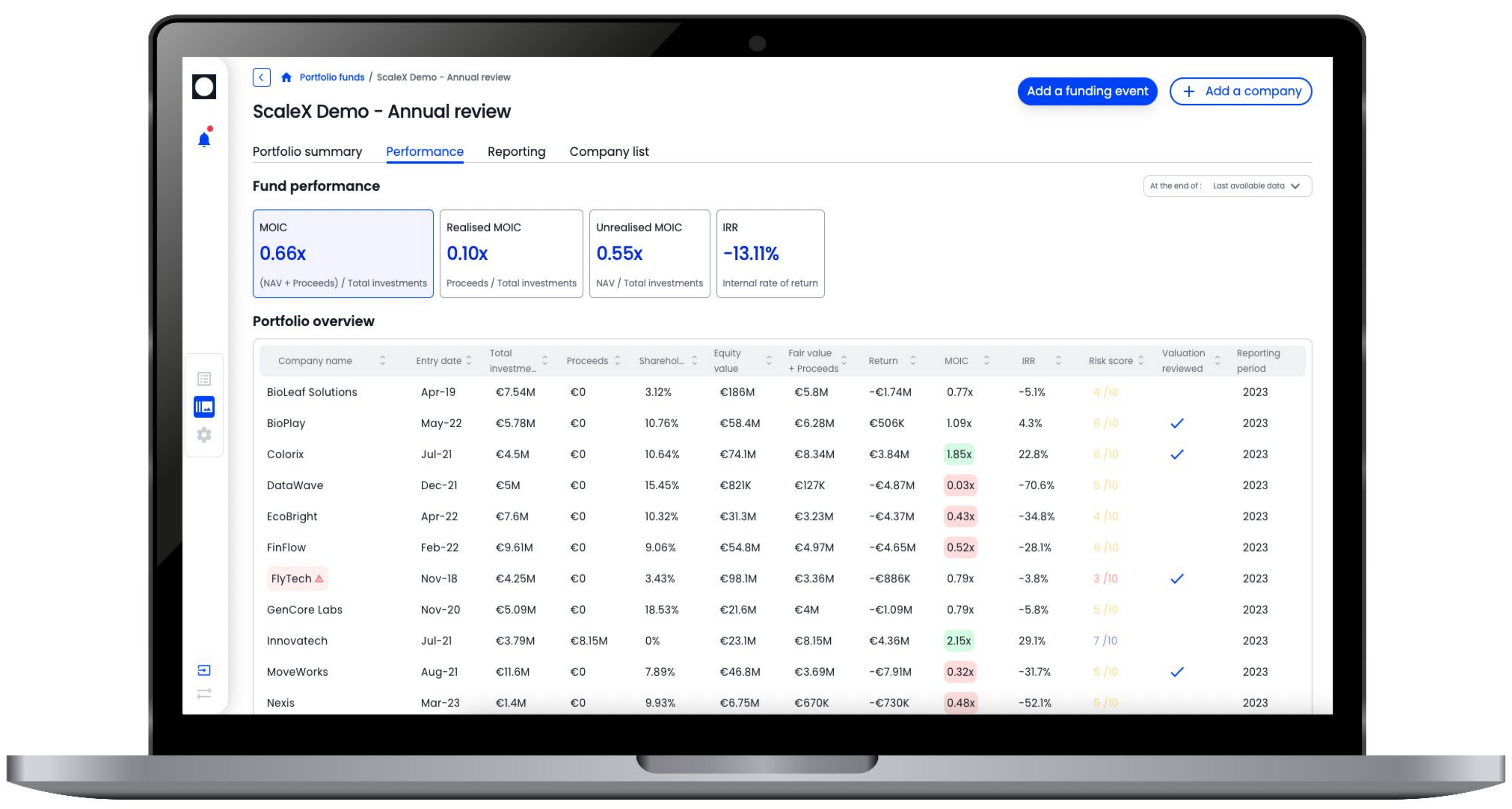
ScaleX Invest: Guiding your investments with data

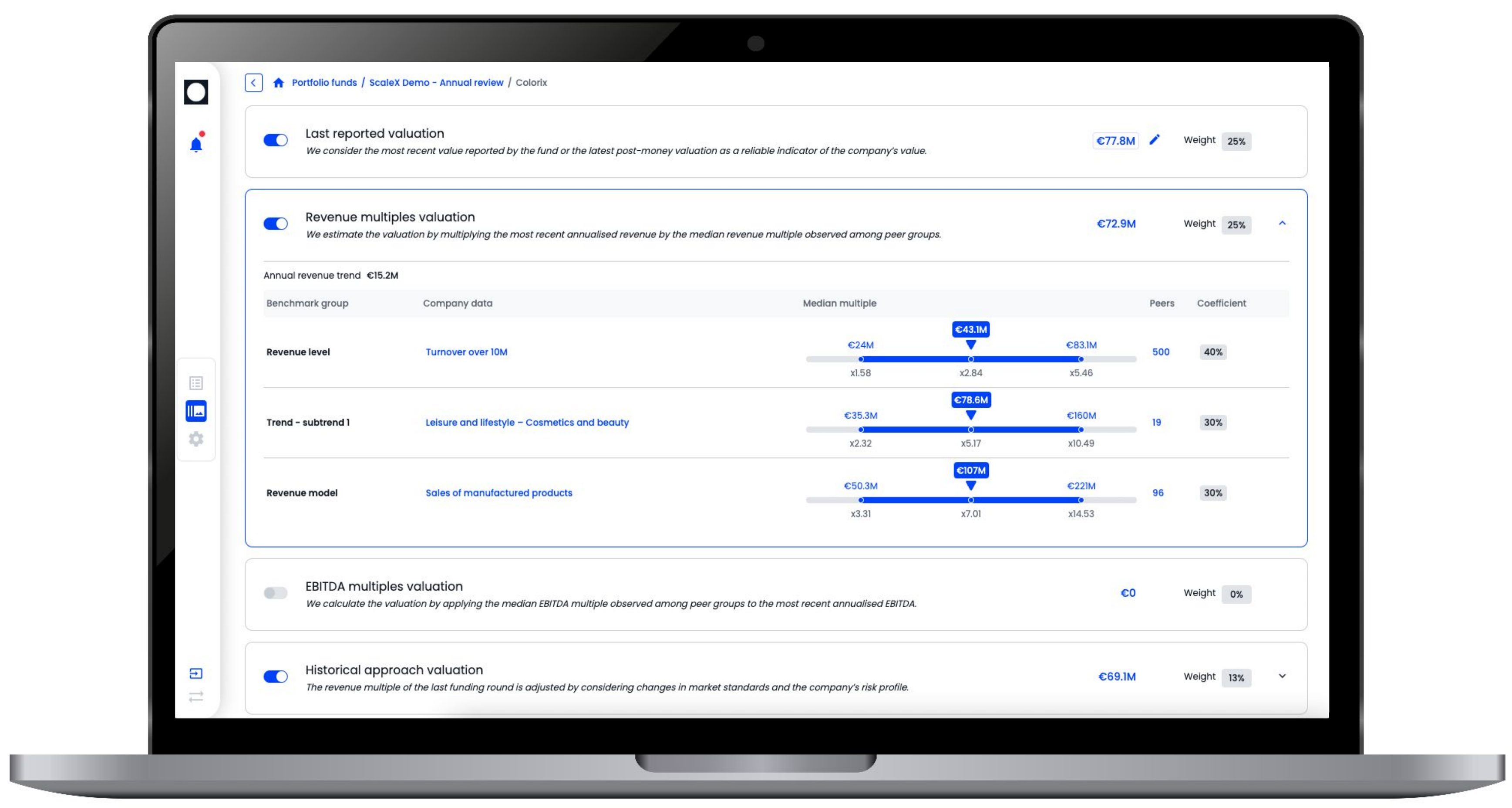
About ScaleX Invest

In Europe's fast-evolving investment landscape, ScaleX Invest equips venture capitalists, banks, and institutional investors with the tools to develop and scale data-driven, profitable financing strategies. Our SaaS platform provides deep insights into the growth trajectories, risk profiles, and resilience of tech companies at every stage, from early ventures to IPO. By leveraging a comprehensive and exclusive company database, ScaleX Invest delivers precise, real-time valuations and risk scores, enabling investors to optimise decision-making and capital allocation.

Transform Your Investment Journey with Our Solutions:

- Portfolio Monitoring: Real-time insights with risk and liquidity scoring for precise oversight and proactive management.
- Multi-Asset Valuation: Accurate, flexible valuations powered by exclusive private deal data and bespoke modeling across various asset types.
- Venture Loan Scoring: Advanced scoring models, backed by a decade of testing, that assess risk and ESG factors for smarter lending decisions.





In an increasingly uncertain investment landscape, anticipating financial distress is more critical than ever. ScaleX Invest empowers banks and institutional investors with cutting-edge analytics to mitigate risks. Our proprietary algorithms have demonstrated their ability to reduce bankruptcy risks by identifying early warning signs and providing data-driven insights into company resilience. This white paper offers exclusive analysis of the French bankruptcy landscape to help investors refine their risk management strategies.

Executive Summary

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Key insights

Summary

Bankruptcies in the French Tech ecosystem are increasing, reshaping investor strategies and risk assessment in VC. An analysis of 1,487 funded startups reveals that 10.4% have faced financial distress, with late-stage scale-ups being increasingly affected. Understanding these dynamics is crucial for investors to anticipate risks and adapt strategies. ScaleX Invest leverages proprietary data and AI-driven insights to help mitigate these challenges.

Key learnings

10.4% of companies in the sample have faced financial distress, posing a high risk of bankruptcy.

€3.3Bn in equity raised by these companies, marking a **+104%** increase from €1.6Bn at the end of 2023.

10 Series C+ companies are affected, **2x** from 2023, highlighting growing challenges for late-stage scale-ups.

-1 For the first time, our panel records a negative net balance (-1) in 2024, as bankruptcies and insolvency proceedings outnumber new Series A rounds.

Sébastien Paillet, CEO

Thanks to the performance of ScaleX Invest's scoring algorithms, the annual bankruptcy risk is reduced to **2.7%**, representing a **4x decrease** compared to the French Tech ecosystem average.

1

Bankruptcies in French Tech: Trends and Insights

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In the beginning, there is data

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Understanding bankruptcies: a data-driven perspective

Sample description

Selection criteria for the study

Companies registered in France

2005 — Companies created after 2005

2015 — Last funding at the latest in 2015

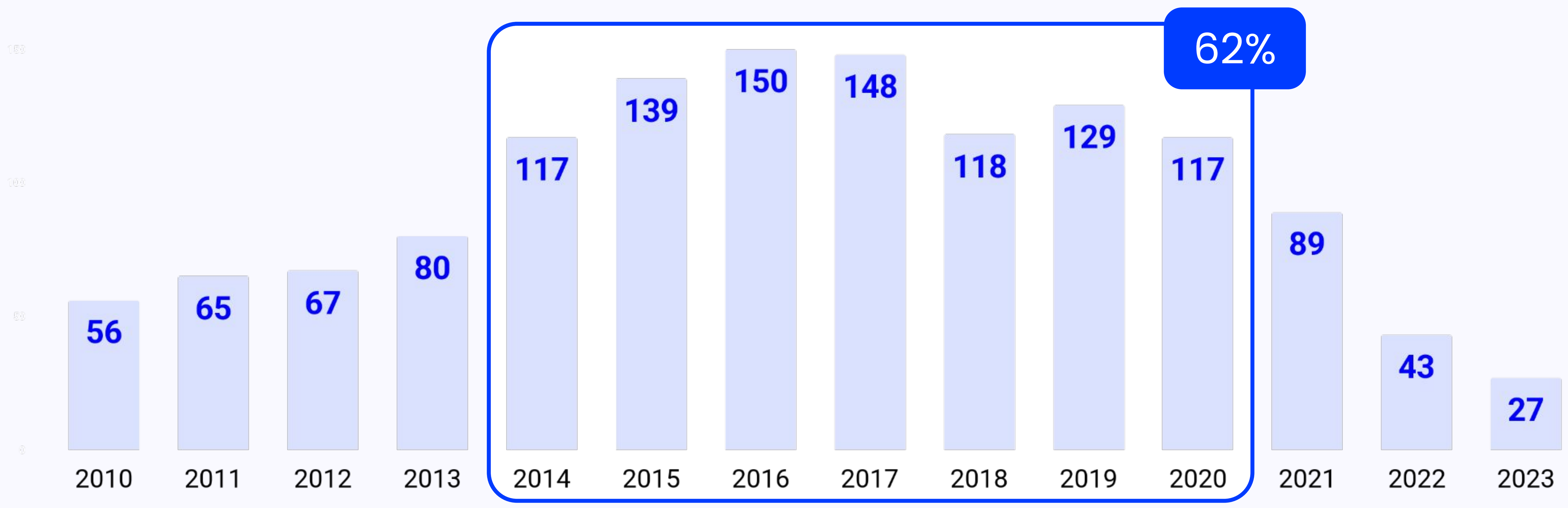
+ €5m — Companies having raised over €5m

Sources: ScaleX Invest, Pappers, Crunchbase

The dataset in figures

New companies vs. 2024 barometer: + 256

The sample consists of 1,487 French companies that raised a Series A round or beyond. All were founded after 2005, with the majority (62%) between 2014 and 2020. On average, these companies have completed 3 funding rounds.



Stage of financing

Series A	Series B	Series C	Series D+
826	446	138	77
56 %	30 %	9 %	5 %

In the beginning, there is data

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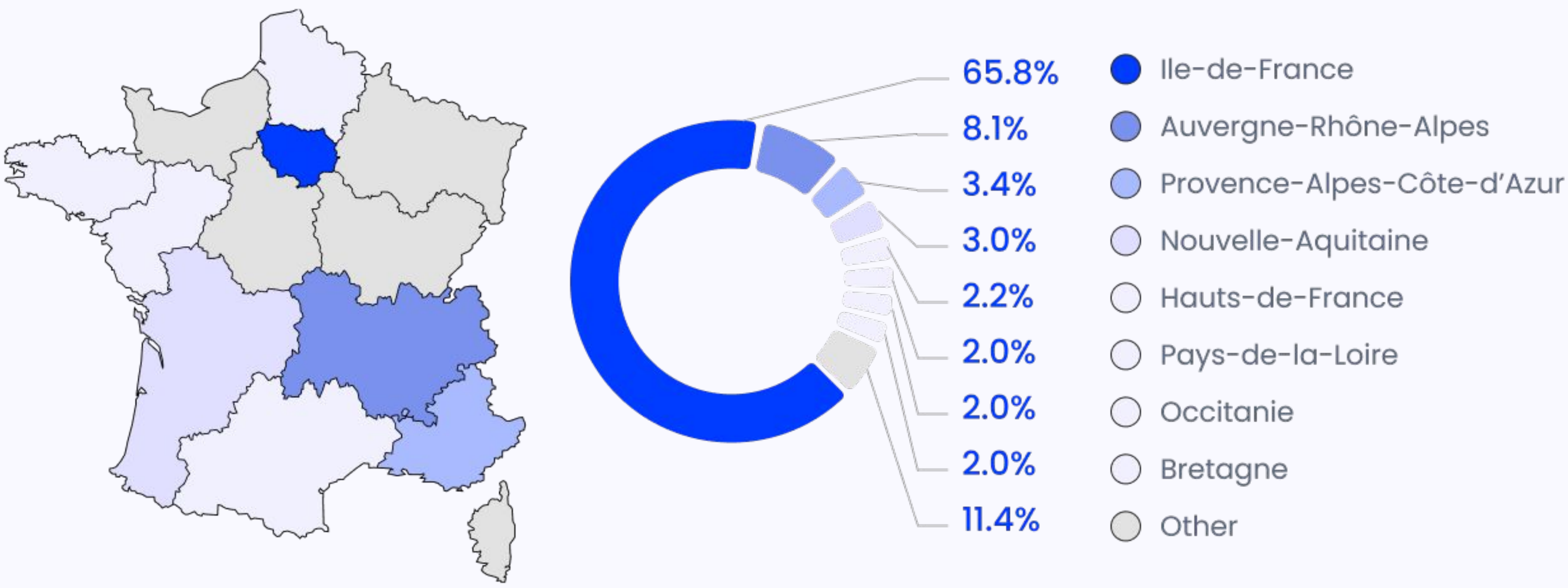
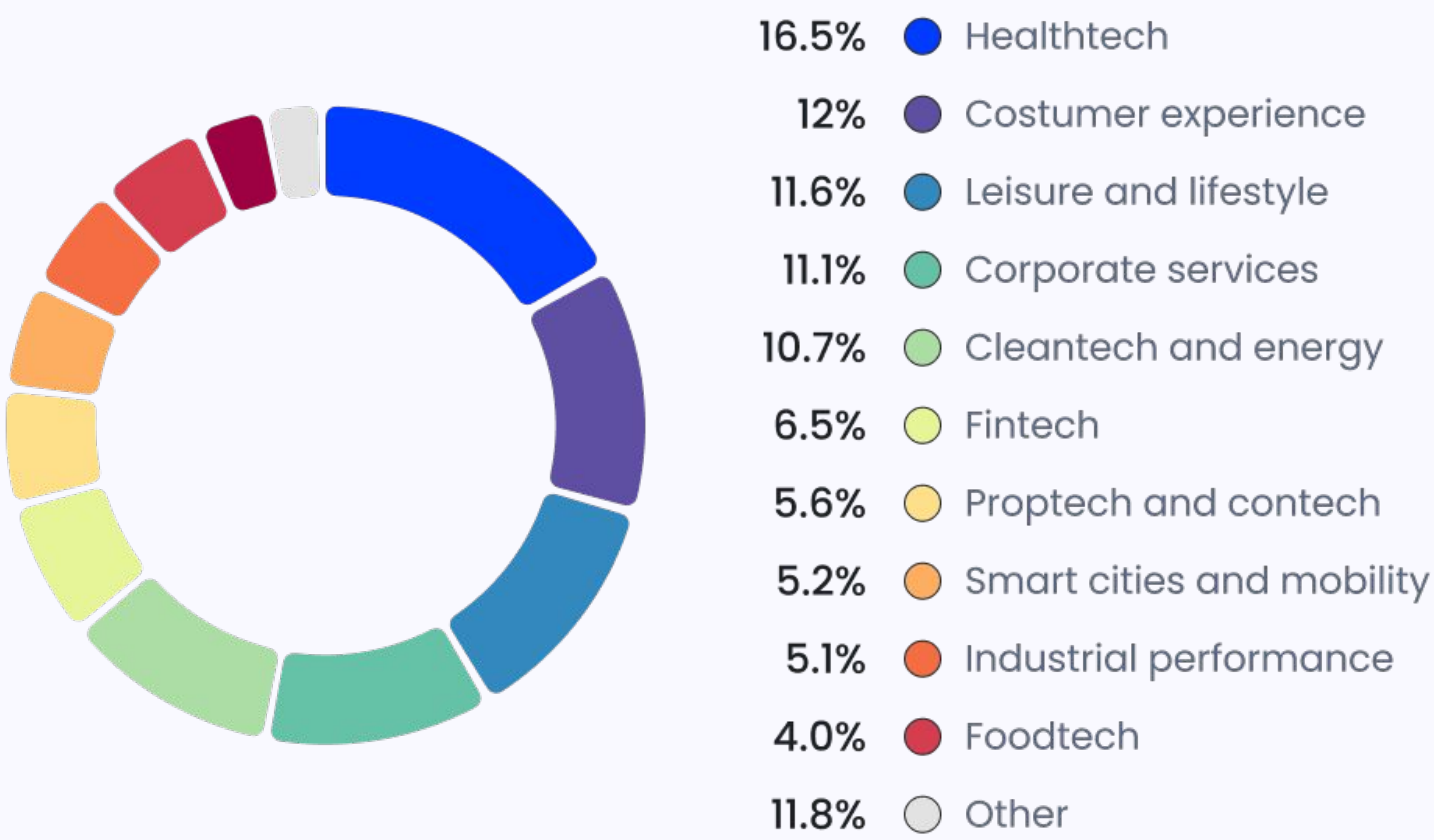
Understanding bankruptcies: a data-driven perspective

Data coverage

Geographical coverage



Most represented trends



Methodology and data

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Analysis method

The dataset is divided into two groups: companies that remain operational or have been acquired, and those facing financial difficulties. We analyse the trajectories of both categories, with a specific focus on struggling companies. Within this group, we differentiate between those undergoing insolvency proceedings, those taken over following insolvency, and bankruptcies.

80.1%

1,191

Active companies

Total equity raised: €45.9bn

9.5%

141

Acquired companies

Total equity raised: €3.20bn

10.4%

Scope of analysis | Financial difficulties

1.3%

20

Buyouts during insolvency

Total equity raised: €500.0m | +74% vs last year

2.8%

41

Insolvency proceedings in progress

Total equity raised: €1.33bn | **+267% vs last year**

6.3%

94

Bankruptcies

Total equity raised: €1.42bn | +50% vs last year

Total equity raised: €3.25bn | **+104%** vs last year

Bankruptcy landscape: Trend analysis

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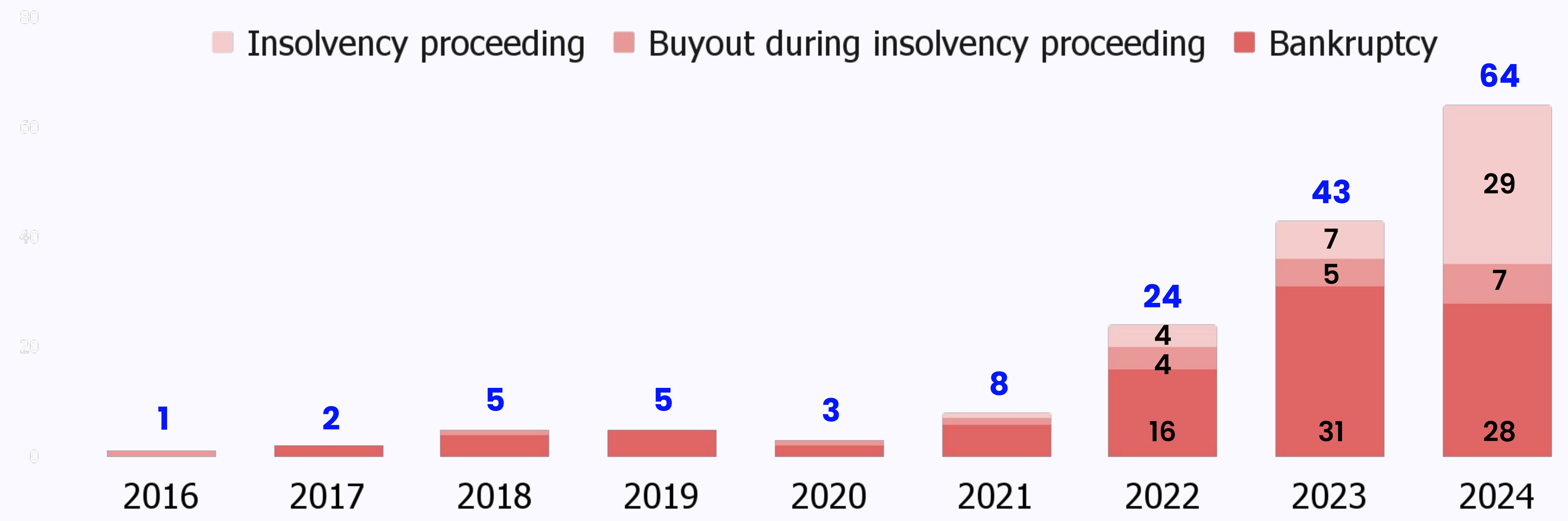
Economic shocks and market cycles affect the Tech ecosystem

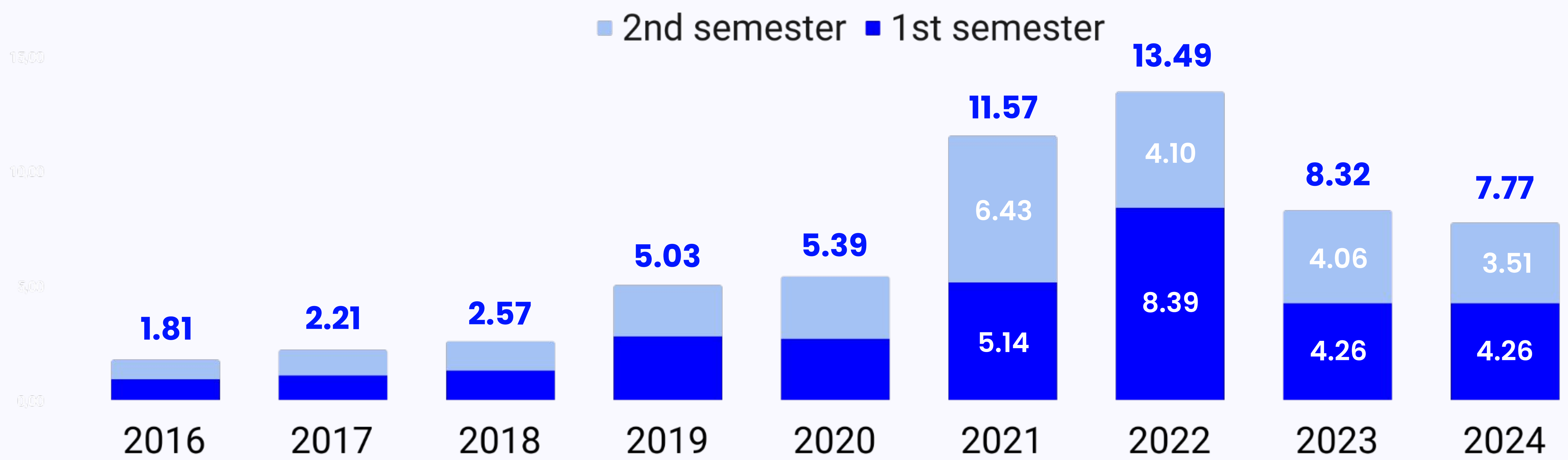
Among the 94 post-Series A bankruptcies recorded over the past nine years, some periods have been more impacted than others. Unsurprisingly, the tech ecosystem has faced significant challenges in recent years, driven by economic downturns, the lasting effects of the pandemic, major geopolitical crises, and widespread inflation. This environment has led to reduced market liquidity, declining valuations, and macroeconomic conditions that hinder exponential growth, contributing to the surge in bankruptcies.

Post-Series A financial distress continues to rise, peaking in 2024



The total funds raised by French startups saw significant growth between 2015 and 2022, increasing from €1.81 billion in 2015 to nearly €14.5 billion between mid-2021 and mid-2022. However, since mid-2022, funding has sharply declined, a trend that coincides with a period of broader financial difficulties, confirming a clear correlation between the two.

Funds raised by French Tech companies (€Bn) correlate with bankruptcies



Source: EY

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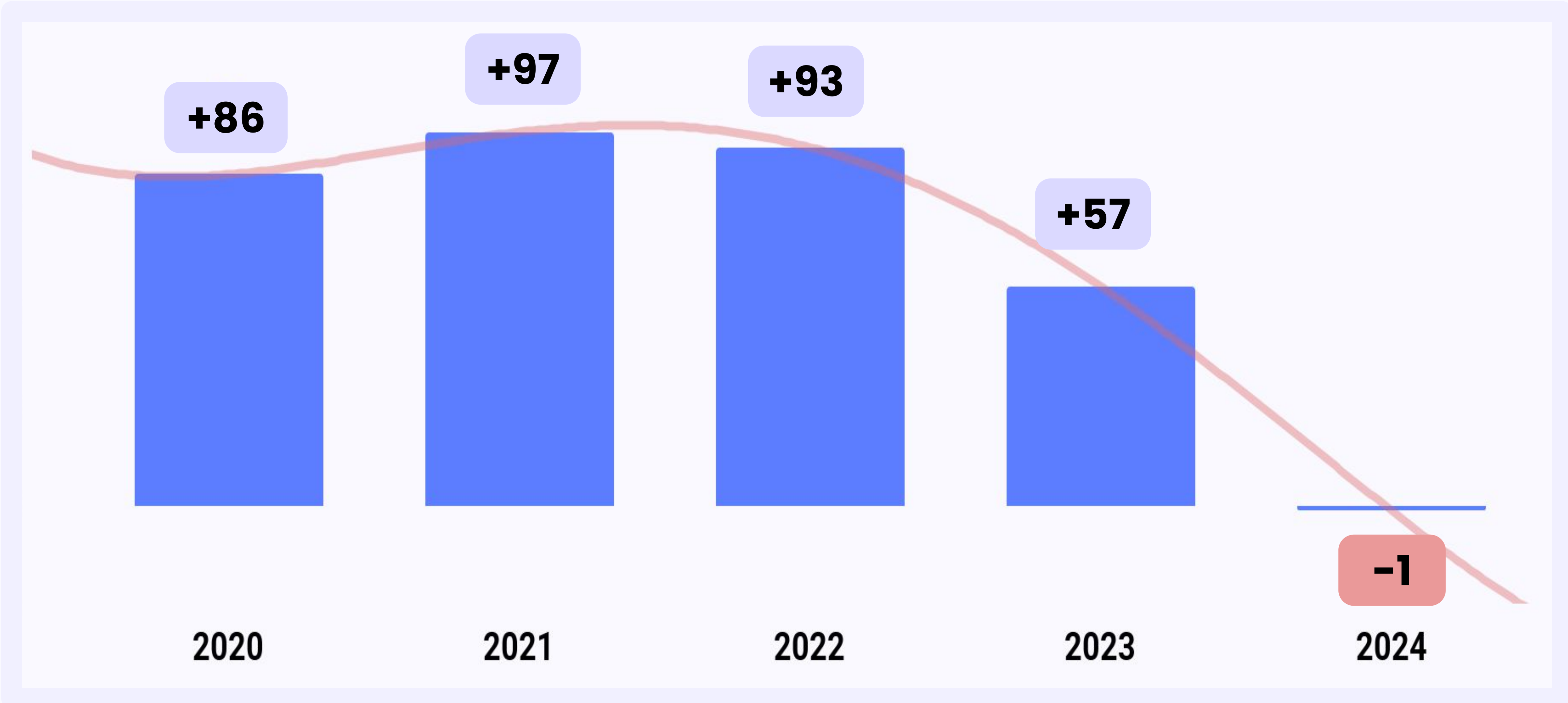
Bankruptcy landscape: A sharp market shift in 2024

2024 snapshot

The French Tech ecosystem is facing a sharp downturn, with VC investments at risk doubling year-on-year to €3.25 billion in 2024. This increase is particularly pronounced in insolvency proceedings, which have more than tripled (x3.7) over the past 12 months, indicating severe liquidity challenges.

The net balance of Tech companies beyond Series A turns negative for the first time in 2024

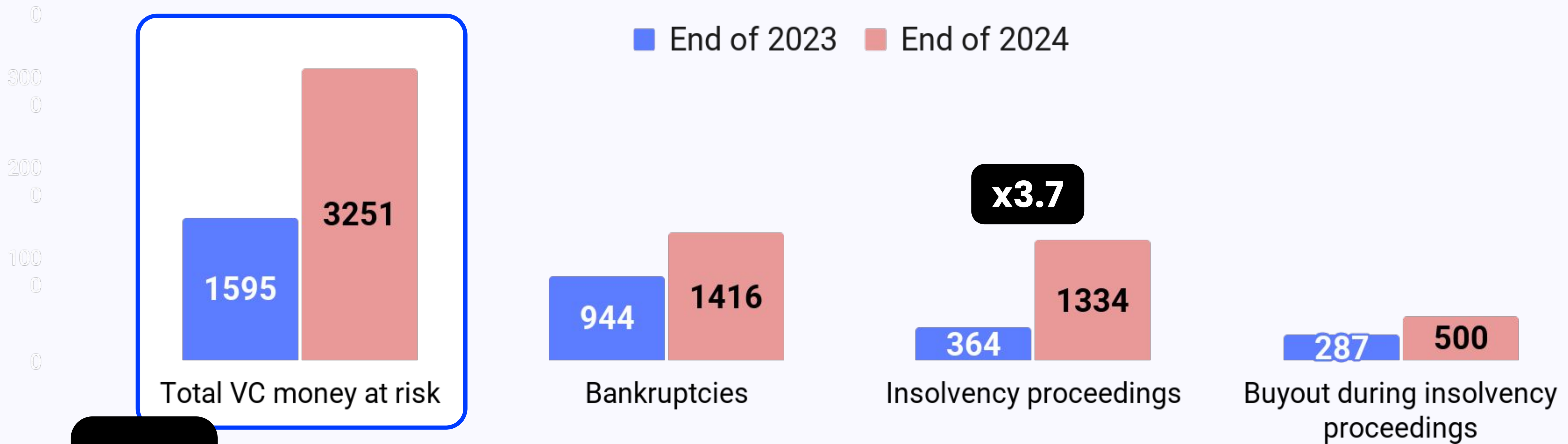


The French Tech ecosystem is experiencing a sharp cycle reversal, marked by a significant rise in failures among post-Series A startups.

For the first time, the net balance of companies in our panel turns negative (-1) in 2024, due to higher number of bankruptcies and insolvency proceedings than new Series A.

Venture Capital investments lost or at risk surge over the past year

Equity investments (€m) in companies with financial difficulties



2x year-on-year increase in VC investments lost or at risk

Bankruptcy landscape: Cohort analysis

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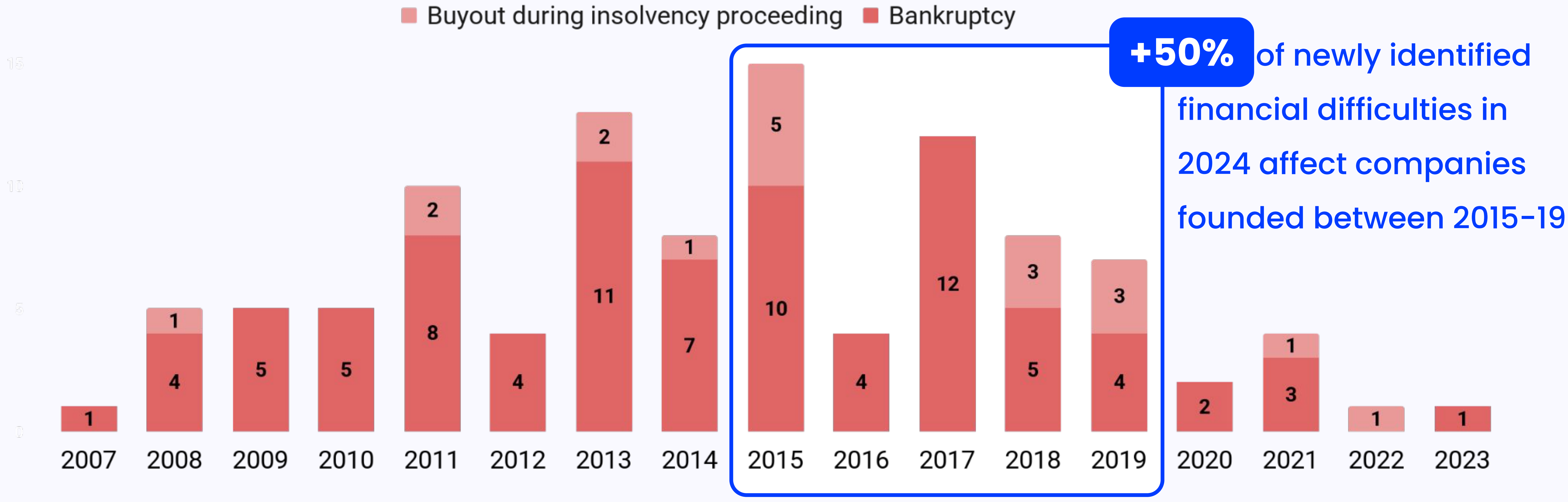
Breakdown of financial difficulties by creation date

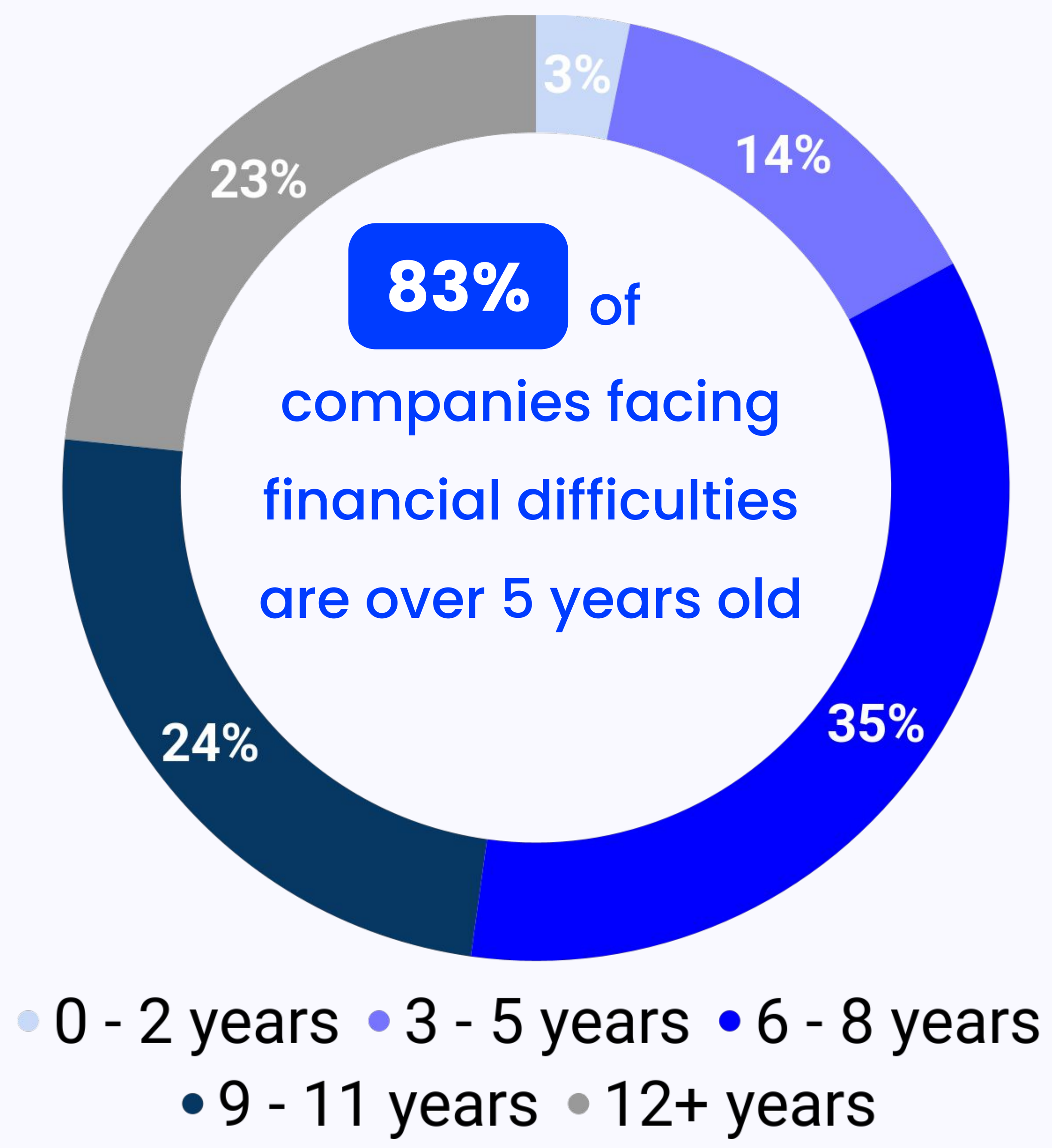
Bankruptcies are largely concentrated among companies founded in the 2010s, with a sharp peak in 2015. Among the financial difficulties identified in 2024, more than half involve companies created between 2015 and 2019, reinforcing this trend.

In contrast, startups launched from 2020 onwards show lower failure rates. Unlike their predecessors, they place greater emphasis on early profitability, adjusting their growth strategies to navigate a funding landscape where capital is scarcer and investor scrutiny more intense.

Breakdown of financial difficulties per creation year



Financial struggles intensify for companies beyond 6 years



The correlation between company age and financial distress shows that most struggling businesses are well beyond the early stage. Companies aged 6 to 8 years face the most difficulties, followed closely by those aged 9 to 11 and even 12+ years. This underscores that many mature firms remain at risk despite market experience and significant equity funding.

Bankruptcy landscape: Fundraising analysis

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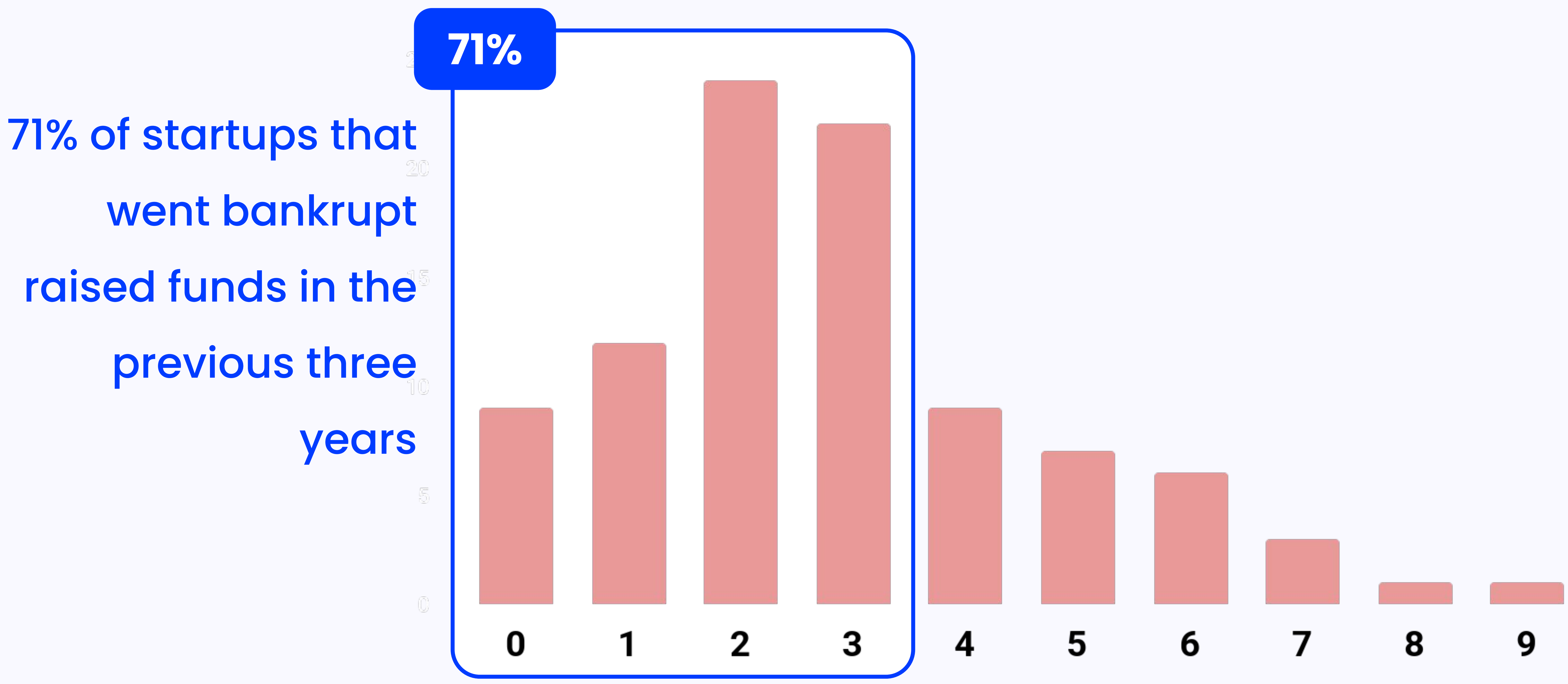
Bankruptcies despite recent investor support

Most bankruptcies involve companies that raised funds within the three years preceding their financial difficulties, highlighting an inability to convert capital into sustainable growth and, ultimately, to secure further financing.
The number of failures peaks two to three years after the last fundraising round. Beyond this point, the trend reverses, with bankruptcies gradually declining. This suggests that companies have successfully adapted to market challenges, stabilised their business model, or reached profitability.

Years between last funding and bankruptcy



Average amount of the last funding round

Buyouts during insolvency	Insolvency proceedings in progress	Bankruptcies
€8.46m	€19.64m	€9.50m

Let's now delve into the financial profiles of the companies under review. →

Failure patterns: Financial profiles

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What are the risk factors?

After analysing the startup cohort, we identified key failure patterns. Recognising recurring trends and underlying factors is crucial for understanding market dynamics and making more informed investment decisions.

	Revenue per FTE*	Net margin*	Equity funds raised
Acquired companies	€137k	-16%	€22.69m
Active companies	**€213k** *+10k YoY*	**-32%** *+3% YoY*	€38.56m
Insolvency proceedings in progress	**€86k** *+22k YoY*	-293%	**€32.55m** *+16m YoY*
Buyouts during insolvency	NA	-595%	€25.00m
Bankruptcies	€33k	-439%	€15.07

**Data from the most recently published financial statements*

Key Learnings

Edouard Thibaut, COO

Revenue per FTE remains a key differentiator between resilient and distressed businesses. Active firms generate an average of €213K per FTE, compared to just €86K for those in insolvency and €33K for bankrupt firms. These figures highlight the role of operational efficiency and revenue scalability.

Startups with persistently weak margins and no clear path to profitability struggle to attract investor support. Companies in distress experience severe net margin deterioration (-293% to -595%), making them ineligible for further funding, especially as investors increasingly prioritise financial sustainability.

Insolvency is increasingly affecting mature companies. On average, firms in insolvency had raised €32.5M, twice as much as those in previous years, yet still failed. This underscores how tighter funding conditions and declining valuations are making it more difficult to access capital, even for well-funded scale-ups.

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Mitigating risk with ScaleX Invest's scoring models

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Mitigating risk with ScaleX Invest

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Lack of transparency in the VC market

One of the major challenges in assessing risk within the Tech ecosystem is the lack of financial transparency. 61.5% of companies have never published financial statements. This opacity makes it difficult for investors to accurately assess financial stability and anticipate potential defaults.

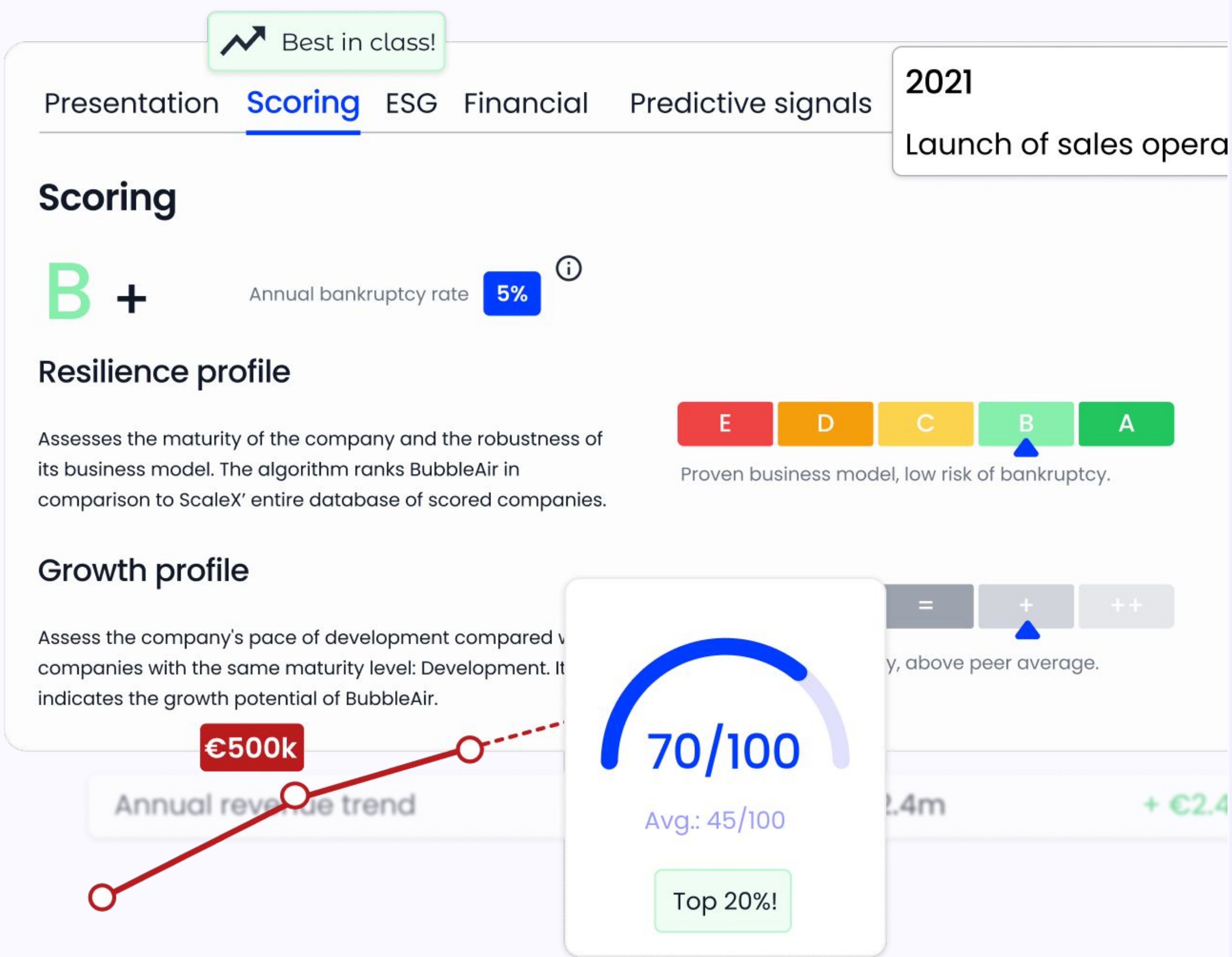
Year of the most recent P&L publication

Never published	2016	2017	2018	2019	2020	2021	2022	2023 - 2024
915	13	20	23	29	46	102	112	227

Only 15.3% of the companies in our sample published their accounts last year, while 61.5% have never made their accounts public.

ScaleX Invest's approach to obtaining private data

Our AI-driven platform securely collects and analyses data from entrepreneurs while ensuring full confidentiality. By leveraging both financial and non-financial data, our algorithms generate a resilience and growth potential score, providing investors with a precise assessment of a company's risk profile in the tech ecosystem.



Mitigating risk with ScaleX Invest

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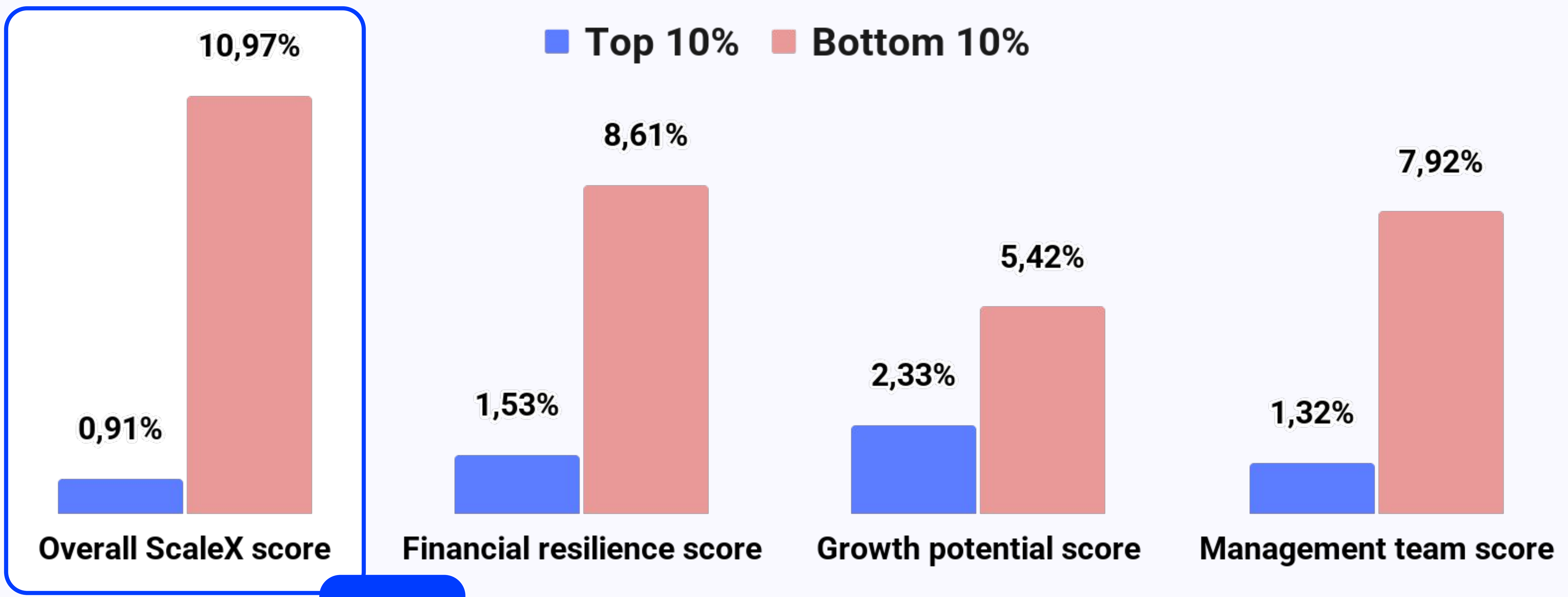
Refining bankruptcy prediction through data-driven algorithms

For 10 years ScaleX Invest has capitalised on its base of rated companies to backtest its scoring model. By assessing the viability of the companies and tracking their growth trajectories and fundraising outcomes annually, we can identify patterns of failure or survival based on the ScaleX Invest algorithms.

How does bankruptcy probability decrease with higher ScaleX scores?



12x more bankruptcies in the bottom 10% than in the top 10%

The critical role of Human Capital in risk assessment

ScaleX Invest supports investors and banks in assessing companies by evaluating their financial health and growth potential. Our analysis considers technology, business model, and team dynamics, with a particular emphasis on human capital. By examining executive expertise, financial commitment, and investor backing, we provide a comprehensive assessment of leadership quality. Backtesting results confirm that the management team is a cornerstone of financial stability, with well-supported and experienced teams significantly reducing the risk of business failure.

After analysing bankruptcy trends and patterns, how can investors mitigate this risk? →

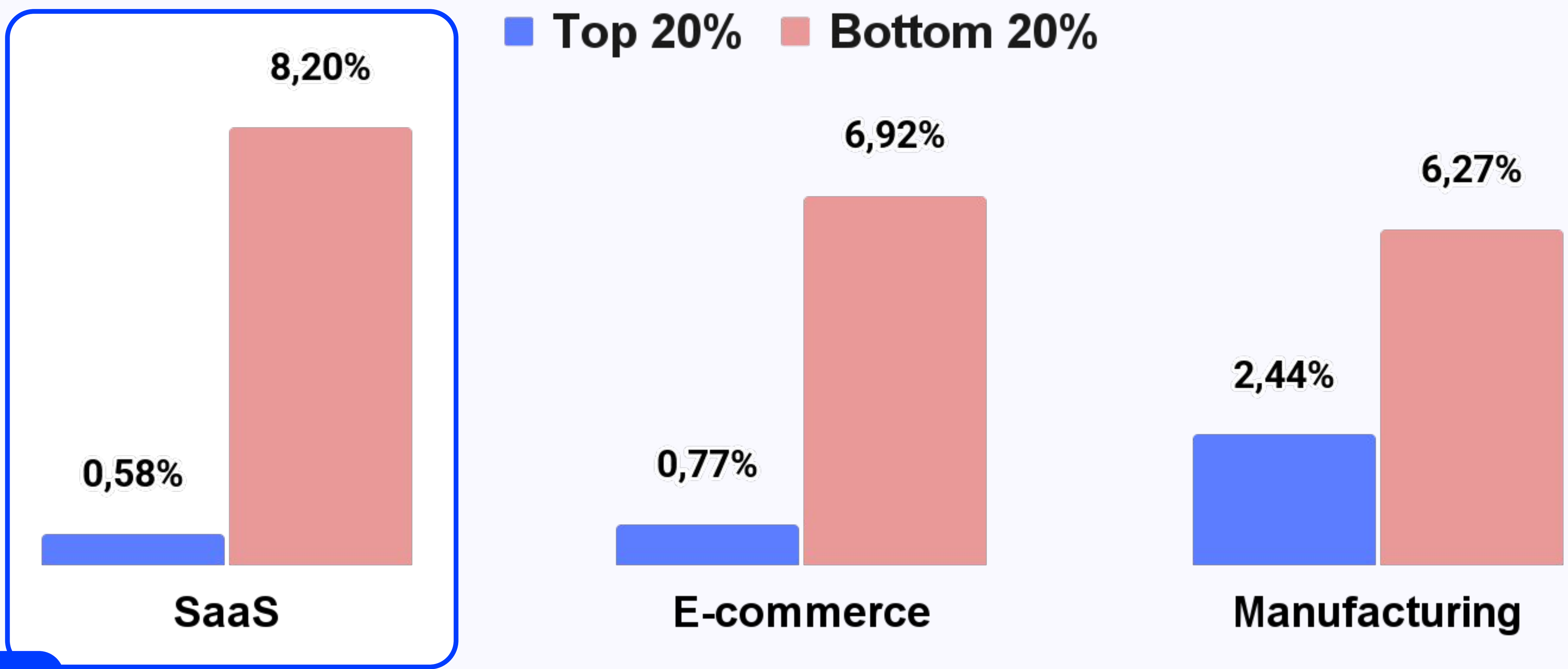
Mitigating risk with ScaleX Invest

ScaleX Invest

Sector-specific models trained by thousands of data points

Our scoring models are adapted to specific sectors and business models, allowing for a more precise assessment of companies within their relevant peer groups. This approach ensures benchmarking against comparable firms, enhancing the reliability of risk evaluation.

How does bankruptcy probability decrease with higher ScaleX scores?



14x very strong predictive performance on SaaS businesses

Edouard Thibaut, COO

By leveraging **10 years of rigorous data collection and backtesting**, along with incorporating extra-financial and human capital factors into our models, we have developed highly reliable scoring systems—demonstrated by a **14x lower bankruptcy rate** between the top and bottom 20% in the SaaS segment.

After analysing bankruptcy trends and patterns, how can investors mitigate this risk? →

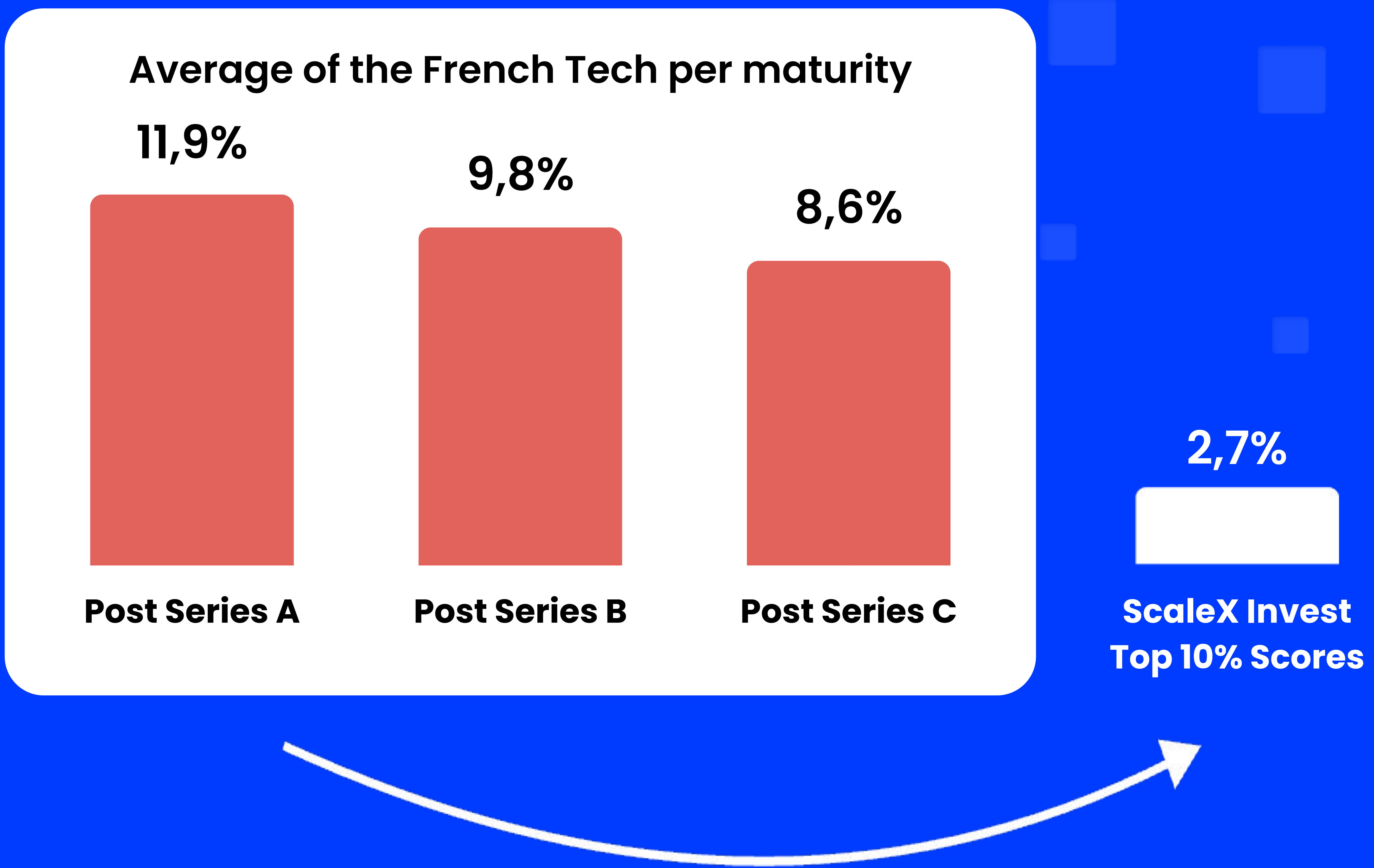
Mitigating risk with ScaleX Invest

ScaleX Invest

Leveraging data-driven models to prevent bankruptcies

By using ScaleX Invest and our algorithms, you can anticipate defaults and financial difficulties. Our platform and models allow you to focus on the highest scores and monitor risks within your portfolio. A higher score indicates a lower risk of bankruptcy.

Financial difficulties 3 years after the last round of financing



Without ScaleX Invest, French startups post Series A face an 11.9% probability of bankruptcy. By leveraging ScaleX Invest and focusing on top scores, **this probability drops to 2.7%, reducing the likelihood of bankruptcy by 4.4 times.**

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Notes

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