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## Creating a tech hub on the banks of the Thames

LONDON

### As start-ups gain traction with government's help, venture capitalists follow

BY MARK SCOTT

Parts of this city have the outward signs of a budding high-tech scene. Run-down warehouses have been remodeled into gleaming office spaces. Some greasy diners have been transformed into trendy restaurants. Many wood-paneled pubs have morphed into wine bars.

Still, an important sign of legitimacy has been missing: a London start-up hitting gold on the public market.

King.com, the maker of the popular Candy Crush game franchise, is trying to change that. And if the company is successful, it could help cement London's reputation as one of Europe's top start-up communities.

The company has filed to go public in the United States, with analysts expecting a multibillion-dollar valuation. The move is feeding expectations that other leading start-ups, many of them clustered in East London, will also mature into public companies.

"In the last 10 years, London has become the most mature of the European tech hubs," said Harry Nelis, a London-based partner at the venture capital firm Accel Partners. "The hope is that some of the new generation of start-ups may start to look at going public in London."

This growing credibility in the tech sector is partly the result of government efforts to reduce London's reliance on financial services, which still dominate the local economy. Local lawmakers have invested more than £50 million, or \$80 million, to rejuvenate local buildings into joint working and events spaces, attracting companies like Microsoft and I.B.M. to East London — or Tech City, as some local politicians call the area.

Policy makers are also working with

local start-ups to make it easier to hire international workers and to help fledgling firms understand how to gain access to the financial markets.

Other cities in Europe, like Berlin, have budding tech scenes, but London  
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Michael Smith, chief executive of Mind Candy, a start-up with 80 million registered users that is aimed at children. Parts of the office are designed like an enchanted forest.

PHOTOGRAPHS BY ANDREW TESTA FOR THE NEW YORK TIMES



**For the vacation rental Web site HouseTrip, the main problem has been finding workers. The company has used recruitment agencies that scour Eastern Europe for talent.**



**The center of the action is in Shoreditch, a neighborhood in East London. Start-ups in the area have taken space in converted warehouses and once-crumbling office buildings.**



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LONDON, FROM PAGE 1

has the benefit of its roots as a global financial center. In the last four years, the number of tech companies in East London has roughly quadrupled, to around 1,400, according to British government statistics. London also attracts more venture capital money than European rivals like Paris and Stockholm.

Still, the tech sector here remains in its infancy compared with Silicon Valley. In the first half of the year, London start-ups raised \$351 million, or less than a tenth of the investment directed to companies in California, according to data provided by Dow Jones Venture Source.

London is gaining some attention as a competitor to cities outside Europe, however. Mayor Michael R. Bloomberg of New York recently said the main competition for start-ups there was from London, not Silicon Valley, because of similar characteristics as a major center for culture and finance.

“London is now seen as a place to start a tech company, and that’s huge,” said Joanna Shields, a former Google and Facebook executive from the United States who runs the Tech City Investment Organization, a British governmental body aimed at attracting investment to East London’s tech sector.

Though start-ups have set up around the city, the center of the action is in Shoreditch, an East London neighborhood. Amid art galleries and pop-up restaurants, local start-ups have taken space in converted warehouses and once-crumbling office buildings. They include fashion companies like Lyst and Farfetch and financial tech firms like TransferWise and GoCardless.

One of the more successful companies so far is Mind Candy, an online game and entertainment start-up aimed at children, which now has more than 80 million registered users worldwide. Just south of Shoreditch and next door to a Google office, teams of designers, engineers and illustrators fill a space that looks like it came from California. Parts of the colorful office are designed like an enchanted forest, and a slide allows workers to descend between floors.

The company had struggled before 2008, when it released **Moshi Monsters**, an online game that allows children to look after a pet monster and interact with others over the Web. Since then, Mind Candy has signed franchising agreements with companies including McDonald’s and Nintendo. Last year, Mind Candy reported a 60 percent increase in revenue, to \$75 million. Now it is looking to expand its reach to the United States, according to the founder, Michael Smith.

Other London start-ups have already made the push to the United States, including Mimecast, an e-mail management company. Four years after starting Mimecast, which allows companies to archive and retrieve e-mail anywhere in the world, Peter Bauer and Neil Murray had to decide in 2003 whether to expand their operations into the United States or farther across Europe.

Despite having large economies like those of France and Germany on the doorstep, the two South Africans sent a small team of engineers and sales representatives to Boston, preferring to bet on the American market than to compete in multiple European countries, where they would have had to face varied cultures, laws and languages.

Now, Mimecast has around 170 people based around the United States, and it expects to have more customers in the United States than Britain early next year. To increase growth, the firm also raised \$62 million last year from venture capital companies like Insight Venture Partners, based in New York.

“It was the riskiest move that our business has made,” said Mr. Bauer, 39, who sold his first start-up when he was just 24 and relocated to Boston in 2011. “If we had failed in the U.S., there would be nothing for us to come back to in Britain.”

But despite the growing number of start-up success stories, London still faces challenges as it looks to compete with other European and international hubs. Tech entrepreneurs complain that local real estate can be prohibitively expensive. Many property owners demand long leases for office spaces that

do not match the needs of start-ups, which can either grow or flop in a short period of time.

For Arnaud Bertrand, the 28-year-old French co-founder of the vacation rental Web site HouseTrip, the main problem has been hiring qualified workers.

Since founding the company in 2009, Mr. Bertrand now has 200 employees in London and Lisbon but has struggled to find British engineers that have the right technical skills. Instead, he has turned to recruitment agencies that scour Eastern Europe for talent, and none of his current 35-strong developer team is originally from Britain.

“We almost have given up recruiting in London,” Mr. Bertrand said. “Finding developers is one of the hardest challenges.”

Small start-ups, larger tech companies like Google and the British government routinely run events in London to help lure and keep developers.

On an unseasonably warm night in late September, a steady stream of mostly twenty-somethings filed into a converted warehouse in grimy East London. The event, organized by a group of start-up founders, brought together programmers and engineers from London’s tech scene to compete in a table tennis tournament that pitted 16 companies, including Facebook, against one another.

Over five hours of competition, fueled by free beer from a local brewery and music provided by a London D.J., the 64 players — sporting T-shirts emblazoned with their companies’ logos — were cheered on by more than 300 colleagues and friends.

Part networking event, part sports tournament, the night offered members of London’s growing start-up community an opportunity to swap stories about work while trying to outplay their counterparts at rival firms.

“Start-ups are always competitive,” said Alexander Will, the 29-year-old co-founder of Listora, an events publishing company, who helped to organize the tournament. “There’s a lot to gain from everyone being in one place getting to know each other.”



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