



Investment Strategy: locally-rooted but globally-oriented

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Sector: Private Equity & Venture Capital

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Julien Coustaury, Managing Partner of Fil Rouge Capital – a seasoned executive with over 20 years of global experience – has been involved in over \$1.7 billion worth of purchase, sale, and financing transactions.

Focused Investment Strategy: Fil Rouge Capital (FRC) prioritizes the South-Eastern European region, aiming to bridge the funding gap and serve as a pivotal force.

Team-Centric Approach: FRC emphasizes the importance of evaluating the team behind a startup, looking for ambitious and passionate founders with credibility and a compelling vision.

Recently, Pedersen & Partners Private Equity team had the pleasure of welcoming Julien Coustaury, Managing Partner of Fil Rouge Capital. Julien founded the firm in 2016, and was generous enough to share with us the Fil Rouge Capital strategy, how FRC looks at investments, and what is going on in the venture capital world.

Julien has over 20 years of experience in manufacturing and services, much of it at the CEO level. He has worked in more than 80 countries across five continents, and participated in over 1.7bn USD of purchase, sale, and financing transactions. Julien is no stranger to pioneering and launching projects: in his early career he travelled the world, building mobile phone networks from the ground up, and as his career progressed, he ended up building entire mobile phone companies from scratch.

Fil Rouge Capital is an investment firm that focuses on several key sectors, including fintech, logistics, broadcasting, climate tech, hyperconnectivity, and smart contracts.

Fil Rouge Capital's expertise lies in the subscription-based business models that they have been selling for the past 25 years, particularly in the mobile subscription industry. FRC has a strong interest in marketplace models, believing in the internet's power to disintermediate customer-provider exchanges. FRC's primary focus is on B2B interactions, and they invest in companies at various stages: Pre-seed, Seed and Series A. FRC's initial investment can be as low as 50,000 EUR, and its maximum investment per company is typically 1.5 million EUR. FRC has invested in 150 companies to date, although it should be noted that around 70% to 80% of these are early-stage companies. As a fund, FRC has been operating for seven years, and currently manages approximately 50 million EUR in assets. An interesting statistic is that FRC has evaluated more than 3,000 opportunities, resulting in a selectivity rate of about 5%. This high rate is due to FRC's emphasis on early-stage investments. When compared to the overall number of venture capital funds, FRC's selectivity rate drops to 1-2%, highlighting the fund's discerning nature. FRC's deal flow comes from various sources, including technology transfer funds, a partner VC network, and active involvement in incubators, coworking spaces, and accelerators. FRC is also keen to establish stronger connections with universities, and this avenue is beginning to yield deal flow.

As part of a regional investment strategy, FRC has chosen to focus specifically on the South-Eastern European region, because this region boasts a remarkable talent pool but suffers from a significant lack of funding opportunities. FRC aims to bridge this gap and serve as a pivotal force in the region. Despite the firm's relatively small size, covering a population of approximately 56 million, Julien firmly believes in a "locally-rooted but globally-oriented" strategy.



Source: FRC

The region offers cost advantages for software product development, and in today's interconnected world, there are no boundaries when it comes to selling software products. FRC has successfully capitalised on this arbitrage, for example with companies such as TVbeat and Flaviar which have grown their Zagreb and Ljubljana teams to 100-200 people whilst no more than 5% of their total sales come from the region itself.

Julien highlighted notable unicorn (1b valuation) companies such as OUTFIT7, Infobip from Croatia, and UI Path from Romania. And also mentioned the success of Bugatti Rimac (formerly known as Rimac) as a standout company in Croatia. FRC is currently the most active investor in Eastern Europe, primarily focusing on early-stage investments, and can boast a 58-time increase in aggregated revenue for the companies that it has invested in since 2016. Julien acknowledged the challenges and potential setbacks in the investment journey, but also expressed enthusiasm and encouraged embracing the rollercoaster nature of the investment experience.

Julien shared with us the criteria that FRC considers when evaluating potential investment opportunities; there may be some variations depending on region, investment stage, and preferred sectors, but the key factors are team and environment.

Julien compared FRC's approach to conducting an exhaustive search and interview process, aiming to understand the individuals behind the team, just as one would evaluate a potential candidate for a specific position. Ambition and passion are essential prerequisites in the challenging world of startups; while ambition and passion do not guarantee success, Julien has observed a common thread among successful tech companies—founders with high ambition and passion.

Credibility is another attribute that FRC values, noting that an academic background in the relevant sector is not necessarily required. Julien shared an example of a successful company in Slovenia, where the founder identified a problem through personal experience during a summer internship at a hotel. Although the founder had no prior background in the industry, he demonstrated his credibility by recognising the outdated processes, and developing a solution that now serves thousands of hotel rooms worldwide.

Julien also mentioned the significance of vision, similar to the importance of a CEO's vision in a large company. He believes that a founder's vision and ability to inspire others are crucial for achieving long-term success and creating value. FRC does not require a formal business plan, but will often discuss the founder's revenue projections for the company over the next five years, focusing more on the reasoning behind the numbers and the strategies for growth. FRC also considers the business thesis, assessing whether the proposed solution has the potential to benefit a large market of 500 million people. However, Julien reiterated that while other aspects are essential, the team remains the primary focus of their evaluation.

Discussing FRC's investment approach and providing examples from their portfolio, Julien mentioned that while FRC's primary focus is on macro trends such as the ageing population and renewable energy, other factors are also considered. Julien highlighted the importance of liking the business and understanding its scalability, particularly for software-based ventures. He also emphasised the team's ability to sell the product globally and the need for a strong sales team, especially when targeting markets such as New York.



Source: FRC

Being a dealmaker is also considered when evaluating potential investments: assessing whether a given investment is a good deal, evaluating the amount and valuation, and determining if it offers added value compared to competitors in the market. Of course, the investment must generate returns for the third-party investors whose money is being managed by FRC; Julien cited some specific investments such as Flaviar (with most of its revenue generated in the US), TV Beat (with a presence in Zagreb and London), and METALOOP (based in Austria). These companies have shown significant growth and return on investment, with some now valued at around 10 times the initial investment.

Julien also discussed two ways in which FRC supports its portfolio companies beyond financial investment: friendly support and psychological support.

As an early-stage investor, FRC often works with young entrepreneurs who may lack experience and knowledge about various aspects of life. In addition to providing guidance and mentorship related to business matters, there are opportunities to engage in more personal discussions, such as advising on managing relationships and handling personal challenges. Julien emphasised the intangible nature of this support, which involves building relationships as a friend or mentor to the founders. In addition to personal support, FRC assists with business development, making introductions and facilitating initial conversations between portfolio companies and potential customers. FRC can assist with fundraising by leveraging their network of investors for subsequent rounds of funding, and support the hiring process by participating in interviews and providing feedback on potential candidates. Overall, FRC's commitment to providing a range of personal and business support is what underscores its dedication to the success of its portfolio companies.

FRC's approach to risk mitigation is based on a structured process which has been developed to address the major risks associated with startup investments. Although Julien did not provide specific details on all risks, he emphasised the significance of the team and cash shortage risks in particular. FRC's approach involves a comprehensive evaluation of the team, active collaboration to manage cash flow, and a thorough analysis of market and product risks to mitigate potential pitfalls in the investments. FRC's previous operator experience has given the firm a deep expertise in cash flow prediction and management, as well as a thorough understanding of the importance of monitoring cash flow and ensuring that companies have a clear understanding of their break-even point. FRC also keeps reserves to support companies that the firm believes in and predicts will face cash challenges. Another risk that Julien discussed is the potential failure to find a product-market fit, or potential changes to the market which could affect the product. To mitigate this risk, FRC encourages companies to iterate quickly, launch features incrementally, and focus on identifying features that resonate with customers. Julien emphasised the importance of being responsive to market feedback and expanding the target market based on demand.

Regarding trends in the investment landscape, the speaker highlighted AI (Artificial Intelligence) as a significant focus area. AI is a hot topic that is often discussed in the industry. Other trends that Julien mentioned include tech disruption in various sectors, the opportunities presented by an ageing population, sustainability (which he notes requires substantial capital investment), fintech disruption, and the ongoing disruption in the e-commerce business model. Julien also mentioned FRC's interest in B2B (business-to-business) SaaS marketplaces and the growing trend of direct-to-consumer models, where companies aim to establish direct relationships between supply and demand without intermediaries. Venture capital investment in hardware is becoming less common, as hardware investments often require significant capital expenditure (CapEx) and are not as compatible with the traditional venture capital model. This is seen as a limitation in the context of venture capital investments.

Regarding the qualities and characteristics valued in entrepreneurs, Julien highlighted passion, vision, commitment, and credibility. He emphasised the importance of founders being open to suggestions and considering different perspectives, although FRC does not aim to impose its own vision on the founders. Diversity within the founding team, with a mix of technical and generalist skills, is also considered important. Resilience is another quality that investors look for in founders, although early in the investment process it may not be easy to define. Past successes can be an indicator of resilience, as founders who have experienced the ups and downs of funding a company are more likely to have the necessary perseverance for future challenges. However, the speaker noted that past successes are not seen as a guarantee of business acumen, but rather as a personal skill that can contribute to navigating the entrepreneurial journey.

Julien highlighted several key points about FRC's approach to exits and maximising returns for investors. First, he emphasised the importance of following the "buy low, sell high" principle when considering exit strategies. By investing in the early stages, FRC aims to mitigate risk and potentially achieve higher rewards when exiting the investment. Diversification across sectors is also seen as crucial to avoid overexposure to any one industry. This strategy helps to spread the risk and capture opportunities in various sectors. FRC recognises the advantage of facing less competition in regional markets, and seizing the opportunity to establish a strong position as a dominant player by being one of the first investors to enter. Additionally, FRC has a follow-on strategy, reserving a significant portion of funds to support successful portfolio companies in later rounds. This approach allows FRC to provide ongoing support and capital to companies that the firm believes in, maximising their potential for growth and success. Furthermore, FRC prefers to invest in sectors it understands and can relate to, enabling the firm to assess potential opportunities more effectively and contribute value to the invested companies. Overall, FRC's approach to exits and maximising returns revolves around strategic investments in early-stage companies, diversification, regional focus, follow-on support, and investing in sectors where the firm possesses relevant knowledge and can provide significant value.

In summary, Fil Rouge Capital has a focused investment strategy in the South-Eastern European region, looking for founders with ambition, passion, credibility, and a compelling vision, but ultimately prioritising the team. The firm also provides comprehensive support to its portfolio companies, actively manages risk, leverages trends in the market, and seeks out entrepreneurs with key qualities. FRC aims to use this regional approach and follow-on strategy to maximise returns and contribute value to the invested companies.



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With a career spanning over two decades, Ms. Stebe spent over 12 years in senior corporate HR positions with Novo Nordisk, Goodyear HR, and NLB Group, in positions that included HR Business Partner for the Adriatics, Head of Education Centre and Talent Management, Head of HR, and GM. She has worked extensively with senior talent to develop their international careers, and has delivered global and regional leadership assignments across many industries.

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