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The Investment Evaluation Standards and Process of Venture Capital Industry in Taiwan: Taking T Venture Capital Company as an Example

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Abstract

The venture capital industry is characterized by high risk and high reward, demanding sharp market insight and strong assessment capabilities. This article examines the evaluation criteria used by T Venture Capital Company in selecting investment targets, offering a reference for the industry. The study utilizes a case study method, focusing on an experienced venture capital firm identified through the Taiwan Venture Capital Association's 2022 roster. Key findings from interviews and document analysis highlight five main criteria used by T Company:

1. Adjusting evaluation based on the investment stage and industry specifics.
2. Focusing on the entrepreneurial team's background, skills, passion, and vision.
3. Prioritizing technological innovation and business model sustainability.
4. Ensuring a clear exit strategy with ongoing communication.
5. Conducting thorough due diligence for sound investment decisions.

The study reveals that T Company relies on a mix of data, judgment, and flexibility in its decision-making process, adapting to each unique situation.

Keywords: Venture Capital, Evaluation Criteria, Entrepreneurial Team, Technological Innovation, Due Diligence.

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1. Introduction

Since the establishment of Taiwan's first venture capital company in 1984, the field has developed over four decades. According to data from the Taiwan Venture Capital Year-book, as of the end of 2020, the cumulative total investment amount of domestic venture capital reached NT$400.32 billion. During this period, more than 970 companies received support and successfully entered the capital market. This shows that venture capital plays a key role in Taiwan's economy, not only promoting the development of the industry but also injecting vitality into the market. In view of this, this study focuses on "Analysis and Discussion of Investment Evaluation Criteria and Processes of Venture Capital", aiming to gain an in-depth understanding of the standards and processes used by Taiwanese venture investors in investment evaluation. Through in-depth interviews and data collection, we explore in-depth understanding of investment evaluation criteria in order to provide more accurate evaluation indicators and suggestions for venture investors. In addition, considering that the global economy will experience a global recession in 2020 due to the COVID-19 epidemic, Taiwan has been able to maintain growth in exports and imports, which further emphasizes the importance of entrepreneurial investment in economic resilience. This study not only focuses on the past results of overall venture capital, but also looks at future opportunities and challenges. As the global economic situation changes, Taiwan's venture capital industry also needs to adjust its strategies in a timely manner to continue to maintain competitiveness and influence in the changing environment. Through this comprehensive and in-depth analysis, this study hopes to make academic contributions to the continued development and success of Taiwan's venture capital field.

1.1 Research Background

Venture capital is a type of investment that invests funds in new ventures with innovative and high growth potential, and provides management, technical and market assistance, with a view to realizing investment returns through the listing, mergers and acquisitions or other means of the invested enterprise in the future. Venture capital can not only promote the development of new enterprises, but also drive industrial transformation and upgrading and economic growth. As a technological powerhouse, Taiwan has many outstanding new start-ups, such as Hon Hai, HTC, MediaTek, etc., all of which have grown and thrived with the support of venture capital. According to statistics from the Taiwan Venture Capital Association, there are currently more than 300 venture capital companies in Taiwan, and their investment fields cover electronics, biotechnology, Internet, consumer and other industries (Taiwan Venture Capital White Paper, 2022). Taiwan's venture capital market ranks fourth in Asia, behind China, India and Japan.

In order to encourage entrepreneurial investment, the Taiwanese government has formulated a series of regulations and policies, such as the "Venture Investment Business Regulations", the "Ministry of Science and Technology Subsidy for Science and Technology New Enterprises Equity Investment Plan", etc., and

provides various incentives such as tax incentives, subsidies, and guarantee deposits. In addition, the government is also actively promoting the establishment of an entrepreneurial ecosystem, such as the establishment of the National Development Fund, the Ministry of Science and Technology Accelerator, etc., to provide more resources and services to venture capital companies and new start-ups. Government support and guidance play an important role in promoting the development of Taiwan's venture capital market.

However, entrepreneurial investment also faces many challenges and risks. First, due to the uncertainty and high failure rate of new ventures, venture capital firms must bear high risks and long payback periods. According to the report of the National Venture Capital Association (NVCA) (Difficulties and Countermeasures of Taiwanese Venture Capital, 2022), only 1 in every 10 new startups in the United States can successfully go public or be acquired, and it takes more than 7 years on average. Secondly, due to the low valuation and low liquidity of Taiwan's stock market, as well as regulatory restrictions, it is difficult for venture capital companies to find an effective and rapid exit mechanism. According to statistics from the Taiwan Stock Exchange (TWSE), the average price-to-earnings ratio (PE) of Taiwan's listed companies in 2022 will be 18.87 times, which is far lower than the 51.69 times of China's Shanghai Stock Exchange (SSE) and the US Nasdaq (NASDAQ) 101.21 times. In addition, the average daily trading volume (ADTV) of Taiwan's listed companies in 2022 is NT$123.4 billion, which is also lower than NT$321 billion of China's Shanghai Stock Exchange and the NT$567 billion of Nasdaq in the United States.

Furthermore, due to Taiwan's aging population and brain drain, as well as its lack of entrepreneurial culture and innovation capabilities, it is difficult for venture capital companies to find high-quality investment targets and entrepreneurial partners. According to statistics from the Ministry of Interior, Taiwan's population will continue to experience negative growth in 2022. The population for the year will be 23,264,640, a decrease of 110,674 people compared with 2021. Moreover, the elderly population ratio reaches 20.3%, which is higher than the threshold of an aging society defined by the United Nations. According to statistics from the Taiwan Ministry of Education, more than 60,000 students in Taiwan study abroad every year, and more than half of them never return to the country.

According to the Global Entrepreneurship Monitor (GEM) report, Taiwan's overall level of entrepreneurial activity (TEA) in 2022 is 8.2%, slightly higher than 7.6% in 2020, but still lower than the global average of 11.3%. Taiwan's entrepreneurial environment has improved in terms of policy, education, and finance, but it still needs to be strengthened in terms of culture, social norms, and market openness. Entrepreneurs in Taiwan are mainly driven by opportunities rather than pressure to survive, and entrepreneurs have relatively high levels of education and innovation capabilities.

Faced with these challenges and risks, how venture capital companies can improve their investment efficiency and performance is a question worth exploring. This study aims to explore the factors that affect the investment performance of

Taiwanese venture capital companies and put forward relevant suggestions and strategies. This study will analyze the following aspects: (1) Characteristics of venture capital companies, such as size, background, strategy, etc.; (2) Characteristics of invested companies, such as industry, stage, region, etc.; (3) Investment process elements, such as investment decisions, super-vision and management, exit methods, etc.; (4) The impact of the external environment, such as policies, regulations, markets, competition, etc. This study will use in-depth interviews and case analysis to gain an in-depth understanding of the practical problems and challenges faced by venture capital companies, as well as their solutions and successful experiences.

1.2 Research motivation and purpose

The main purpose of this study is to analyze the evaluation criteria used by venture capital companies when selecting investment objects. The core goal of the venture capital industry is to find companies with market prospects, provide financial support, obtain high in-vestment returns, and successfully exit. Although there are many studies on venture capital, there is relatively limited research on how venture capital firms screen companies. Therefore, based on this research background and motivation, this study will use actual investment cases to explore the factors that venture capital companies consider during in-vestment evaluation.

2. Literature Review

2.1 Venture Capital

2.1.1 The definition of venture capital

The origin of venture capital can be traced back to the United States in the early 20th century, when some wealthy families or individuals began to make private investments in potential companies, such as the Rockefeller family's investment in American Airlines, Ford Motor Company, etc. However, it was after World War II that venture capital truly became an institutionalized and professional activity. In order to promote technological innovation and economic development, the U.S. government introduced a series of policies and regulations, such as the 1946 The U.S. Small Business Administration (SBA), the Defense Research and Development Act passed in 1958, the National Aeronautics and Space Administration (NASA) established in 1958, etc. These policies and regulations not only provide venture capital investors with the convenience of raising funds and reducing tax burdens, but also stimulate demand and innovation in the technology field.

Against this background, a number of early venture capital entrepreneurs emerged in the United States, such as American Research and Development Corporation (ARD) established in 1946, Rock Corporation established in 1958, Greylock Partners, established in 1962, etc. These venture capitalists mainly invest in fields such as technology, manufacturing or services, and have achieved some successful cases. For example, ARD invested US$700,000 in Digital Equipment Corporation

(DEC) in 1957 and invested US$700,000 in 1968. Sold its shares for $355 million, earning a 500-fold return; Rock invested $1 mil-lion in Intel Corporation in 1969 and sold its shares for $320 million in 1971, earning a 320-fold return.

1970s was a turning point in the development of venture capital for several reasons: First, the Employee Retirement Income Security Act (ERISA) passed in 1974 allowed institutional investors such as retirement funds to invest part of their funds in riskier investments. Private Equity Funds (Private Equity Funds) with high risks but high returns, including Venture Capital Funds, have significantly increased the supply of funds in the venture capital market; the second is the 1978 Internal Revenue Service (IRS) The promulgated Ruling No.77-4 allows venture capital funds to be organized in the form of limited partners (Limited Partnership, LP), thus avoiding the issue of double taxation and clarifying the managers of venture capital funds (General Partner, GP) and investors (Limited Partner, LP); third, the 1979 U.S. Supreme Court decision in the Diamond v . Chakrabarty case confirmed the patents for biotechnology products rights, thus opening up opportunities for development and venture capital in the biotechnology industry.

1980s was a golden period for the development of venture capital, with the following main characteristics: First, the scale of the venture capital market expanded rapidly, from US$150 million in 1980 to US$3.6 billion in 1989, with an average annual growth rate of 41%. Second, the field of venture capital is diversified. In addition to traditional fields such as technology, manufacturing or services, it also involves emerging fields such as biotechnology, medical equipment, communications, software, and the Internet. Third, the mode of venture capital participation is diversified. In addition to listing, mergers and acquisitions, equity transfers, buybacks, etc. have also appeared; fourth, venture capital performance has been remarkable, producing a number of well-known successful cases, such as Apple Inc., Cisco Systems Inc., Oracle Corporation, and Lenovo Group, etc.

1990s was a period of volatility in the development of venture capital, with the following main characteristics: First, the venture capital market was affected by the economic cycle, with a downturn from 1990 to 1992, followed by a recovery period from 1993 to 1996. Then there was a boom period from 1997 to 2000, and finally a recession period from 2001 to 2003; second, the venture capital field was concentrated, with Internet-related fields accounting for the majority of the venture capital market; third, the venture capital market was the mode of investment has been simplified, with listing as the main focus, occupying the majority of the venture capital market; fourth , the performance of venture capital has been extreme, resulting in a number of legendary success stories, such as Am-azon.com Inc., Yahoo! Yahoo! Inc., eBay Inc., Google Inc., etc. have also produced a number of tragic failure cases, such as Pets.com Inc., Webvan, eToys.com Inc., etc.

As for Taiwan's definition of venture capital, according to Article 32 of the Industrial In-novation Regulations, the Ministry of Economic Affairs, the central competent authority, should provide guidance and assistance to venture capital enterprises to promote the entrepreneurial development of emerging domestic enterprises. Article 3 of the Guidance Measures for Venture Capital Enterprises

stipulates that venture capital enterprises refer to companies with paid-in capital of more than NT$200 million, operating businesses that directly provide funds to invested enterprises, and provide business operations and management to invested enterprises. or consulting services to companies or commercial organizations. Therefore, the definition of Taiwan venture capital can be simply explained as: a professional equity investment activity guided and assisted by the government, aiming to support domestic emerging enterprises with high risk, high growth and high technology, and provide relevant management and consulting services.

2.1.2 Organizational types of venture capital

Types of venture capital can be divided into the following three types: joint stock company, corporate venture capital (CVC) and limited partnership, which are explained as follows:

1) Joint stock company: a joint stock company is a legal person organization based on shares, and the liability of shareholders is limited to the shares they hold. The advantage of a joint-stock company is that it has legal person status and can independently assume rights and obligations, and its shares can be freely transferred, making it easier to raise funds. The disadvantage of a joint stock limited company is that the establishment procedure is relatively complicated, and it needs to comply with the registration, announcement, audit and other requirements stipulated by the law, and it also needs to pay taxes and maintain accounting, auditing and other systems. A joint stock limited company is suitable for venture capital undertakings with larger scale, more investment projects, and higher risks (Liu, 2015).
2) Corporate Venture Capital (CVC): corporate venture capital refers to the activity of enterprises investing in external innovative enterprises through their subsidiaries or departments. The advantage of CVC is that it can use the resources, technology, brands, channels, etc. of the parent company to help the invested companies grow rapidly, and it can promote the innovation capabilities and competitive advantages of the parent company. The disadvantage of CVC is that there may be conflicts of interest, strategic inconsistencies, cultural differences and other issues, which will affect investment results and cooperative relationships. CVC is suitable for companies that have clear strategic goals, are willing to take risks, and seek long-term returns (Chen and Liu, 2005).
3) Limited partnership: a limited partnership is a partnership organization composed of general partners and limited partners. The general partners have unlimited joint and sever-al liability for partnership affairs, while the limited partners are only responsible for their capital contributions. Responsible. The advantage of a limited partnership is that it is flexible and autonomous, can freely agree on the rights and obligations of each party according to the partnership contract, and can enjoy benefits such as high transparency and low tax burden. The disadvantages of a limited partnership are that it lacks legal

person status and cannot independently assume rights and obligations, and limited partners cannot participate in the management of partnership affairs, otherwise they may lose the protection of their limited liability. Limited partnerships are suitable for venture capital ventures that are smaller in scale, have fewer investment projects, and have lower risks (Lin, 2016).

2.2 Comparison between venture capital and bank loan evaluation processes

The core principles of bank lending are commonly known as the "5P principles". This set of principles helps banks comprehensively assess and manage the risks of loan applications. The five principles are: People, Purpose, Payment, Protection and Perspective.

These principles provide banks with a comprehensive framework to assess and manage the risks of lending. This not only helps banks make informed lending decisions, but also ensures the overall stability and security of the financial system. Compared with venture capital, there are significant differences between the 5P principles of bank lending and the investment evaluation process of venture capital (VC). The de-tailed comparison is as follows in Table 1:

1) People

Bank lending: Focus on the borrower’s credit history and the experience of the management team. Banks evaluate borrowers' character and credit history to ensure they are re-sponsible and capable of repaying the loan.

Venture capital investment: focus on the founder’s background and team expertise. Venture capital pays more attention to the expertise and success record of the management team, because this directly affects the success potential of the entrepreneurial enterprise.

2) Purpose

Bank Lending: The use of the loan must be clearly specified and its economic viability assessed. Banks need to know how the loan will be used to ensure the funds are used appropriately.

Venture Capital Investment: Focus on innovative and scalable business models. Venture capital evaluates ideas for their innovation potential and commercial profits, focusing on long-term growth and market potential.

3) Payback

Bank lending: Pay attention to repayment schedules and interest rates. Banks need to ensure that loans can be repaid on time and that expected interest income can be earned from them.

Venture Capital Investing: Analyzing revenue models and return-on-investment exit strategies. Venture capital focuses more on the long-term return on investment, including the company's future profitability and exit opportunities.

4) Protection

Bank lending: requires collateral, guarantor or credit fund guarantee to protect the loan. This is a way for banks to ensure they can recoup their investment, even if the

borrower defaults.
Venture capital investments: Conduct due diligence on company valuations and deal structuring. Venture capital protects its investment by acquiring shares and conducting de-tailed risk assessments.
5) Potential
Bank Lending: Assess the borrower's potential for business growth. Banks are concerned about the stability and growth prospects of borrowers' businesses, which affects their ability to repay.
Venture Capital Investment: Predicting a company's growth and expansion potential. Venture capital is looking for companies with high growth potential, especially innovative companies that can significantly expand their market share.

Table 1: Bank lending principles (5P) V.S venture capital investment evaluation process

Standard	Bank lending principles (5P)	Venture capital investment evaluation process
People	Borrower's character and credit history	Assessment of management team expertise and track record of success
Purpose	Purpose and economic feasibility of the loan	Assessment of creative potential and commercial profitability
Payback	The borrower's ability to repay the loan	Analysis of revenue models and return on investment exit strategies
Protection	Guarantee or security provided to protect a loan	Due diligence on company valuation and deal structure
Potential	Loan's potential to grow borrower's business	Company growth and expansion forecasts

In summary, the bank lending process pays more attention to security and repayment ability, while venture capital investment pays attention to the management team, innovation potential and business scalability. Banks provide more traditional and conservative financing methods, emphasizing credit and financial health; in contrast, venture capital seeks investment opportunities that are higher risk but may bring higher returns.

2.3 The Process of Venture Investment

When venture capital firms consider large-scale capital investments in new ventures, they usually follow a series of core processes (Tyebjee and Bruno, 1984). This process includes the following key stages:
1. Screening of investment cases
The first step in investment case development is the assessment of market and industry trends, a process through which investors can identify industries and companies with high growth potential. Investors analyze a potential company's business model, market positioning, competitive advantages and its sustainability in the market. At the same time, it is also crucial to pay attention to the background

and experience of the entrepreneurial team, as well as their passion and commitment to the business. This stage also includes preliminary financial assessments such as revenue growth, profit margins, cash flow conditions, etc.

2. Due Diligence Evaluation Criteria

During the due diligence phase, investors will conduct in-depth financial, legal and business reviews. This includes detailed analysis of a company's financial statements, tax records, contracts, business plans and market research reports. Legal due diligence includes any legal issues that may affect the investment, such as intellectual property, labor compliance, contractual obligations, etc. In addition, evaluating the management team's capabilities, experience and business execution capabilities are also the focus of the evaluation.

3. Prepare investment agreement

Once due diligence is completed, the next step is to develop and negotiate an investment agreement. This stage includes determining the specific terms of the investment, such as investment amount, equity ratio, equity dilution terms, management rights and exit terms, etc. The investment agreement should detail the rights and obligations of both parties and take into account various potential business risks and future market changes.

4. Post-investment management

After the investment is completed, investors typically become involved in the day-to-day management of the company to ensure the implementation of its business strategies and growth plans. This may include providing strategic guidance, financial planning support, market expansion strategies, and more. Investors may be given a seat on a company's board of directors to better oversee company operations and financial performance.

5. Exit strategy

The exit strategy of venture capital is crucial to venture capital funds and their investors because it involves investment recovery and profit realization. There are three main exit methods for venture capital: public listing (IPO), mergers and acquisitions (M&A), and unlisted exit (Trade Sale).

2.4 Venture Capital Evaluation Indicators

Venture investment evaluation is a multi-stage evaluation and screening process conducted under conditions of limited manpower, time, and information asymmetry. It is one of the important investment decision-making procedures. Therefore, evaluation activities must be based on a sound evaluation model to make effective and correct investment decisions (Fried and Hisrich, 1994). The aspects of investment case evaluation and related evaluation indicators of each study are summarized in Table 2.

Table 2: Venture investment evaluation indicators

A Model of Venture Capitalist Investment Activity (Tyebjee and Bruno, 1984): 1. Market attractiveness: including market accessibility, demand, market size and growth. 2. Product differentiation: Focus on technical strength, profit margins, product uniqueness and patent protection. 3. Business and management capabilities: management, marketing, financial capabilities and the entrepreneur's personality traits. 4. Resistance to environmental threats: such as market entry barriers, the ability to cope with economic cycles and technological obsolescence. 5. Liquidity: Pay attention to the time and difficulty of investment recovery, as well as opportunities for market exit and merger.
Criteria Used by Venture Capitalists to Evaluate New Venture Proposals (Macmillan et al., 1985): 1. Entrepreneurial traits: concentration, risk assessment ability, clear expression and attention to details. 2. Entrepreneurial experience: market knowledge, leadership skills and historical performance records. 3. Products and services: whether they have patents or other protection measures, market acceptance and prototype development stage. 4. Market characteristics: market growth, stimulating effect on the existing market, market experience and competitive pressure in the previous three years. 5. Financial considerations: The investment return within 5-10 years is at least ten times the investment amount, and the ease of exit of the fund. 6. Management Team: The composition and structure of the team.
The Development and Management of Venture Capital (Bai, 1984): 1. The uniqueness and difficulty of imitating the technology: Consider the originality of the technology or product, as well as the difficulty or cost of imitation. 2. Business execution capabilities of the management team: Evaluate the capabilities of corporate managers in product development, marketing, manufacturing, finance and administrative management. 3. Focus of financial assessment: Pay attention to financial status, forecasts, capital structure and investment recovery, with special emphasis on profits and cash Flow prediction. 4. Feasibility of exit strategy: consider the size of the company after long-term investment, and whether it can be obtained through a public listing or sale to a large group The possibility and difficulty of group recovery of funds.
Strategic Analysis of Venture Capital Plan Evaluation (Chen, 1986): 1. Management and operation: focus on the company's internal competitive advantages, understanding of the market and customers, human resources and operation and management capabilities. 2. Product characteristics: comprehensive evaluation of technological innovation, uniqueness, patent protection, etc. 3. Management by objectives: Consider the fit between the investment plan and the company's overall goals. 4. Risk management: Analyze overall investment risks and opportunity costs. 5. Market attractiveness: Assess market competition and barriers to market entry
Investment Plan Evaluation (Tang, 1989): 1. Market feasibility: product features and advantages, market demand, competitor situation, market share and marketing channels. 2. Technical feasibility: the degree of technological innovation, the feasibility of the manufacturing process, the supply of raw materials, and the deployment of technical talents. 3. Environmental factors: Consider the impact on the environment, the possibility and cost of pollution prevention and control, and site selection issues. 4. Financial analysis: development costs of product prototypes, learning curve trends, and fund-raising capabilities. 5. Management team: Integrity, ability to recognize errors, adaptability, passion for work and potential for success, management and technical talents.

Source: Compiled by this study.

2.5 The Current Situation of Venture Capital in Taiwan

According to the Taiwan Venture Capital Yearbook released in 2022, over the years, venture capital has supported the proportion of companies entering the capital market, with the highest proportion of companies entering the capital market (Table 3). As of the end of 2020, there were 278 operating venture capital companies in Taiwan (Table 4). The total paid-in capital of these companies is NT$165.804 billion (Table 4), and a total of NT$449.7 billion has been invested in 18,326 investment cases (Table 4). It is worth noting that 2012 was the peak year for the liquidation or dissolution of venture capital companies in the past decade, with 55 companies exiting the market that year. However, in the past three years, the gap between the number of newly established companies and liquidated and disbanded companies has remained at single digits (Table 4), keeping the number of venture capital companies in Taiwan at more than 260 (Table 4). These data not only reflect the healthy development of Taiwan's venture capital industry, but also show the industry's stability and maturity in the continuously changing economic environment.

Table 3: Statistical table of the number of entrepreneurs supported by venture capital in the past years to enter the capital market

Capital Market Stage	TWSE	TPEx	ESM	Total
The total number of companies entering the capital market over the years	972	819	1,161	2,952
The number of companies that venture capital has supported to enter the capital market over the years	320	304	348	972
The number of companies that have entered the capital market with non-venture capital support over the years	652	515	813	1,980
Proportion of venture capital-backed companies entering the capital market over the years	32.92%	31.28%	35.80%	100.00%
The proportion of companies that have entered the capital market with non-venture capital support over the years	32.93%	26.01%	41.06%	100.00%
The number of companies that venture capital has supported to enter the capital market over the years to the total number of companies	10.84%	10.30%	11.79%	32.93%
The number of companies that have entered the capital market with non-venture capital support over the years to the total number of companies	22.09%	17.45%	27.54%	67.07%
Proportion of the number of companies that venture capital has supported to enter the capital market over the years by category	32.92%	37.12%	29.97%	32.93%
Proportion of the number of companies that have entered the capital market with non-venture capital support over the years by category	67.08%	62.88%	70.03%	67.07%

Note: TWSE: Taiwan Security Exchange/TPEx: Taipei Exchange/ESM: Emerging Stock Market

Table 4: 2010~2020 Overview of the overall development of venture capital industry

Number of households analysis	2010	2011	2012	2013	2014	2015	2016	2018	2019	2020
Number of venture capital company operators	259	268	220	217	230	229	244	265	269	278
Number of new establishments	5	19	7	10	21	18	21	17	12	21
Number of name changes or business liquidations in the current year	7	10	55	13	17	19	6	7	8	12
Cumulative number of name changes, business changes or liquidations	101	111	166	179	196	215	221	245	253	265
Capital Amount Analysis (Unit: NT$/Billion)										
Amount of paid-in capital for the year	1,594.30	1,451.30	1,407.00	1,326.30	1,404.10	1,449.80	1,483.50	1,527.20	1,618.90	1,658.00
Amount of newly established paid-in capital in the current year	150.9	44.3	19	24.3	104	57	68.7	20.13	22.34	42.66
Amount of capital increase in the current year	13.5	62.8	31.3	13.6	80.9	104.6	106	129.67	148.25	54.67
Amount of capital reduction for the year	209.9	250.1	94.6	118.6	107.1	115.9	94.5	62.18	65.58	46.28
Amount of new capital added in the year	-45.5	-143	-44.3	-80.7	77.8	45.7	80.2	5.93	105	51.1
Average capital per venture capital firm	6.2	5.4	6.4	6.1	6.1	6.3	6.1	5.8	6	6
Investment Situation Analysis (Unit: NT$/Billion)										
Number of investment cases in the year	633	707	291	459	311	354	593	367	331	415
Cumulative total number of investment cases over the years	13,960	14,667	14,958	15,417	15,728	16,082	16,675	17580	17,911.00	18,326.00
Amount of investment in the current year	137.5	182.2	106.6	138.2	116.3	122.4	158.5	127.3	101.6	124.7
Cumulative total investment amount over the years	2,639.70	2,821.90	2,928.50	3,066.70	3,183.00	3,305.40	3,463.90	3,776.90	3,878.50	4,497.20
The average investment amount of each venture capital company in the year	0.5	0.7	0.5	0.6	0.5	0.5	0.6	0.5	0.4	0.4
Average investment amount per case for the year	0.2	0.3	0.4	0.3	0.4	0.3	0.3	0.3	0.3	0.3
The total investment amount of the year as a proportion of the capital amount	8.60%	12.60%	7.60%	10.40%	8.30%	8.40%	10.70%	8.30%	6.30%	7.50%

Source: Taiwan Venture Capital Yearbook, 2011.

3. Research Methods

3.1 Research Methods

(1) Data collection

This study mainly uses two types of data sources. First, primary data come from in-depth interviews with case companies, which provide first-hand information and insights. Secondly, secondary data include relevant research by domestic and foreign scholars, professional magazines, academic journals and newspaper articles.

(2) Personnel interviews

In terms of personnel interviews, this study first made a preliminary classification of venture capital companies according to their main sources of funding based on the list and industry dynamics information obtained from the Venture Capital Association. These categories include venture capital funded by financial institutions, venture capital funded by general industries, venture capital established by individual investors, and venture capital established by government-related units. On this basis, representative companies of each type are selected for preliminary contact. Then, this study will interview one of the companies to gain an in-depth understanding of the experiences and challenges of venture capital companies invested by different investors in the actual investment process, and mutually verify these actual materials with literature records to ensure the comprehensiveness and consistency of the research.

3.2 Interview objects and topics

3.2.1 Interview subjects

The interviewee for this study was the director of the investment department of T Venture Capital Company. This study takes 10 investment cases of T Venture Capital Company as the object. After interviewing the relevant decision-makers of T Company on their background and process of handling each investment case, and understanding whether the investment decision of the investment review committee for each investment case is approval or rejection.

3.2.2 Interview topics

There are eight in-depth interview questions in this study, which are summarized in Table 5

Table 5: Summary of interview questions

Question 1	**Assistance in providing background information about your company**
Question 2	Please help provide a summary of your company's current investment profile, including investment amounts and investment stage proportions, investment proportions in different industries, and other information.
Question 3	Please provide investment performance evaluation information for each investment case.
Question 4	What is your company's investment decision-making process? How to interact and communicate with the team of the invested company.
Question 5	For the cases your company has invested in, the development stages of the businesses it invests in are seed stage, establishment stage, expansion stage and maturity stage. Which stage does the board of directors prefer?
Question 6	What is the distribution of domestic and overseas industries in which your company invests?
Question 7	What are the factors that determine whether the board of directors agrees to invest in the investment decision?
Question 8	Which decision-making factor is the most important?

4. Case Analysis

4.1 Case introduction

The business projects of T Venture Capital Co., Ltd. are to engage in venture capital business for invested enterprises and provide planning, consulting, guidance on stock listing and financing, cross-border corporate financing, mergers and acquisitions, share conversion and other diversified professional financial advisory services. T Venture Capital The company focuses on potential enterprises at home and abroad, and combines the group's resources to provide financial services for enterprises at different stages of development.

4.2 Case Company Decision- Making Model

(1) Case development

Through the group's resources, new innovation incubation accelerator platform, financial matchmaking and strategic cooperation among peers, potential investment cases of domestic small and medium-sized enterprises are collected, and the cases are initially screened by the investment management department of T Company (including: industry prospects, operating scale, investment amount and core competitive advantages, etc.).

(2) Proposal review

To effectively review the investment cases and investment disposal cases of T Company, an investment review committee was set up to strengthen risk control of investment cases, bring into play the effect of brainstorming, and improve the return on investment. It is responsible for reviewing investment cases according to the

professional expertise of each committee member. Reduce investment risks and invite experts and scholars from the company's industry to participate in meeting discussions when necessary.

A. The members of the Investment Review Committee are composed of three to five investment review committee members. Committee members are selected from the group's professional managers or industry veterans. Each term is three years, and they are subject to re-election. They will take effect after being approved by T Company's board of directors.
B. The Investment Review Committee of T Company convenes irregularly. For investment cases, investment disposal cases, post-investment evaluation reports or other important proposals, with the approval of the Chairman of T Company, the Chairman may convene the Investment Review Committee. When a stakeholder transaction case is submitted to Company T's investment review committee or board of directors for resolution, sufficient information and written documents should be provided , including legal basis, cause of action, conditions and content of the intended transaction, and proof that the transaction conditions are not better than those of other similar objects.
C. The convening of the Investment Review Committee of T Company shall be attended by more than half of the investment review committee members. Resolutions on investment and disposal cases shall be made with the consent of more than half of the investment review committee members present. When the investment amount exceeds NT$30 million, it must be reviewed by the board of directors.

(3) Investment agreement

When the case passes the review of the Investment Review Committee, Company T will negotiate the investment agreement and sign the agreement to ensure that the investment conditions comply with the authorization of the Investment Review Committee and to ensure smooth post-investment management.

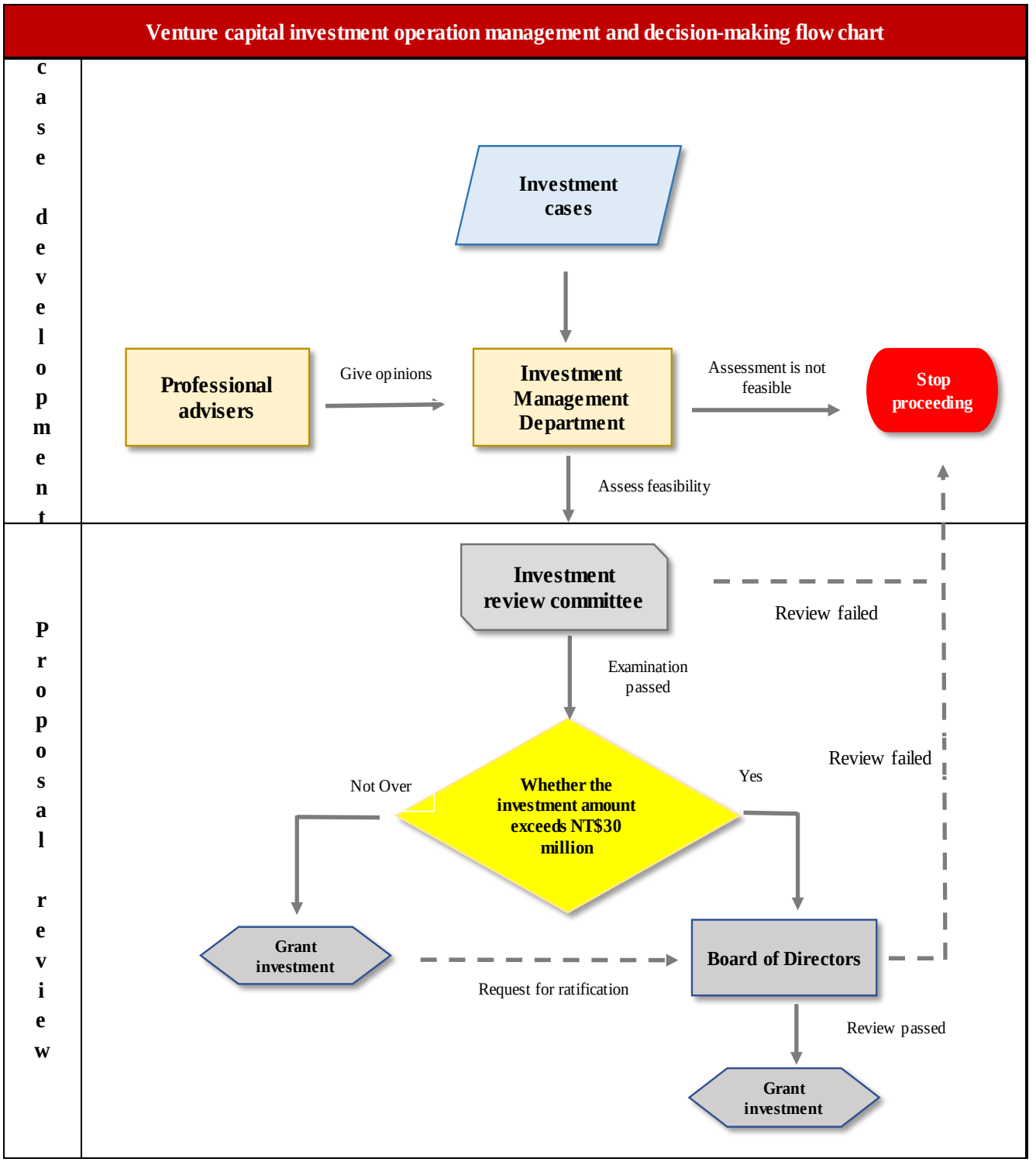
(4) Authorized investment management mechanism

The investment amount is within 30 million yuan (including NTS30 million) and must be approved by the investment review committee. The investment amount is above NT$30 million, and must be approved by the investment review committee and the board of directors (Table 6).

Table 6: Authorized investment amount and review unit

Investment amount	Investment review stage
NT$30million (including NT$30 million)	Subject to the approval of the Investment Review Committee
More than NT$30 million	Must be approved by the Investment Review Committee and the Board of Directors

Figure 1: Venture capital investment operation management and decision-making flow chart



4.3 Case Company Investment Strategy

(1) Investment areas and industries

Taking into account the changing international economic situation and the large gap between overseas investment conditions and benefits, T Company currently focuses on investing domestically and gradually expands to Taiwan-funded enterprises in Greater China. It will re-evaluate the foreign investment environment in the long term. In line with government industrial policies, it focus on six core strategic industries as the main focus of investment case development, including information security, semiconductors, biotech medical care, smart machinery (such as IoT), smart agriculture, green electricity and renewable energy, and key materials. etc. are key industries; every investment case must comply with ESG.

Table 7: Case types

Six core industries	Case types
Information and digital	High-end semiconductor process technology, semiconductor equipment and materials, 5G, AI and smart machinery industry (including smart production lines), etc.
Green electricity and renewable energy	Wind power generation, solar photovoltaics, smart meters, microgrids and SOFC fuel cells, etc.
Precision health	AI affects interpretation, cell therapy and gene construction, massive health insurance databases and precision health service products, etc.
People's Livelihood and War Preparedness	Key materials, semiconductor materials and equipment, key raw materials for vehicle batteries
Defense and strategy	Space industry and defense industry supply chain industry, etc.
Information security excellence	information security protection capability analysis and forensics, information security operation management, information security consulting and other services.

(2) Investment stage

Table 8: Investment stages and proportions

Investment stage	%	Illustration
Seed stage (Seed round, Angel round)	10%	The founder has successful experience and has new creative ideas, as well as prototype samples and preliminary business models.
Creation stage (A and B rounds)	20%	The product has matured, and some samples have been provided to potential partners for trial use. It has a good reputation in the industry, and the company's business and profit model are gradually taking shape.
Mature stage (C and D rounds)	30%	The company's business and profit model have gradually matured, the company has begun to make a profit, and has been able to accelerate the progress of scale, while preparing to launch new businesses and new areas. In addition, accounting firms have begun to provide guidance on the establishment of internal control systems.
Expansion stage (Pre-IPO round)	40%	The company's main products are in stable sales, new products and businesses are gradually stabilizing, the company's profits are increasing year by year, the internal control system is perfect, the sponsoring securities firm has begun to provide guidance, and the company is preparing for listing.

(3) Investment case analysis and compilation

An analysis of the 10 cases invested by Company T shows that the industry is dominated by biotechnology, which accounts for 30%, followed by the electronics industry, which accounts for 20%. The investment stage is dominated by the expansion period, which accounts for 50%, followed by the establishment period, which accounts for 30%, and domestic areas account for 90%. 90% of the investment amount falls within NT$30 million, 70% of the investment decision-making factors are industry prospects, and the rate of return is -39.40%~110.85% based on public market quotations. The six major Core industries account for 40%, and each case is invested only if it meets ESG standards. Among these investment cases, two have negative returns, one is A Biotechnology and the other is J steel company. Among them, A Biotechnology was unable to advance its originally planned business as scheduled, resulting in cash outflows being greater than inflows, and its performance was not as good as expected; J steel company was unable to apply for listing as scheduled due to litigation issues, and its stock price was therefore weak.

Unlike ordinary venture capital investors who mostly invest in the early seed stage or the founding stage, T Venture Capital chooses targets mainly in the maturity and expansion stages. The main reason is that the parent company of T Venture Capital is in the financial industry, and its investment targets are related to banks. Mainly clients who have been with banks for many years, the investment strategy is relatively conservative and the return rate is relatively stable.

Table 9: Analysis and arrangement of investment cases

#	Company Name	Industry	Stage	Area	Investment amount (NT$1,000)	Agree on investment decision factors	Rate of return (Note)	Six core industries ?	ESG
1	A	Biotech industry	Creation stage	Domestic	30,000 within	Technology	-39.40%	yes	yes
2	B	Biotech industry	Creation stage	Domestic	30,000 within	Technology	39.28%	yes	yes
3	C	Biotech industry	Creation stage	Domestic	30,000 within	Technology	67.07%	yes	yes
4	D	Electronics industry	Seed stage	Domestic	30,000 within	Team	31.30%	no	yes
5	E	Recycle economy	Mature stage	Domestic	30,000 within	Industry	19.55%	yes	yes
6	F	Leasing industry	Expansion stage	Domestic	30,000 above	Industry	56.92%	no	yes
7	G	Electronics industry	expansion period	Domestic	30,000 within	Industry	45.26%	no	yes
8	H	Electronics industry	Expansion stage	Foreign	30,000 within	Industry	53.60%	no	yes
9	I	Electrical machinery industry	Expansion stage	Domestic	30,000 within	Industry	110.82%	no	yes
10	J	Steel industry	Expansion stage	Domestic	30,000 within	Industry	-6.03%	no	yes

Note: As of June 30, 2024, the rate of return is the total rate of return.

(1) Analysis of investment decision factors

Based on the accumulated experience in case development of the T Venture Capital management team, we have established our own case evaluation key points to facilitate a quick and complete evaluation of the company in the case evaluation, which is roughly divided into five evaluation aspects, factors and key points shown in Table 10.

Table 10: Five evaluation aspects, factors and key points

Facets	Factor	Focus
Business (Fund raising) plan	The feasibility and completeness of the plan, the degree of logical rationality and the description of the fundraising price, and whether it presents a competitive advantage and investment niche.	Description of the company's business and profit model construction. Company competitive advantage analysis Calculation and explanation of rationality of subscription price
Main operating team and shareholder structure	The experience, background, successful experience, team shareholding ratio and mastery of the operating plan of the management team	Founder or Chairman Experience. Successful experience related to management team. Strength of shareholder structure. Shareholding ratio of management team.
Market size and marketing model	Including market size, market potential, market competitive advantage, and marketing strategy planning	The future growth scale of the industry, the upstream, midstream and downstream structure of the industry, and the CAGR are greater than 20%.
Main products and core technologies	Including technology sources, technical talents and R&D capabilities, patents and intellectual property rights, product added value and uniqueness, etc.	The company has obtained the certifications/licenses required by the industry, such as ISO 9001, waste disposal license, etc. Sources of key technologies and ownership of patent rights. Product competitive advantages and differentiation
Financial allocation and investment returns	Including financial status, shareholder structure, financial plan/funding needs and expected return on investment, etc.	Full-time financial supervisor and audit supervisor, reasonableness of future financial forecasts, audited by medium-sized accounting firms or above

4.4 Management Mechanism after Investment

During the investment process of the case, daily investment management is closely carried out to ensure that the invested company complies with the operation plan during the operation process and avoids major abnormalities. In addition, a coaching mechanism is provided for the invested company to create better benefits through the sharing of resources, so the post-investment management and coaching mechanism is explained as follows:

1) Post-investment management mechanism

Prepare investment tracking reports quarterly

a. The company obtains financial statements of investment targets every quarter and analyzes quarterly operating conditions, including industry overview, shareholder structure, business strategies and ESG situations, etc.
b. If the invested target has the following circumstances that will obviously endanger the company's operations:

(i) There are major changes in the operation and management team; (ii) There are major changes in core technical personnel; (iii) There are major transfers of equity; (iv) There are major abnormalities in financial status; (v) There are major legal disputes or government Restricted by government agencies; (vi) market competition conditions have seriously deteriorated; (vii) other circumstances that clearly endanger operations.

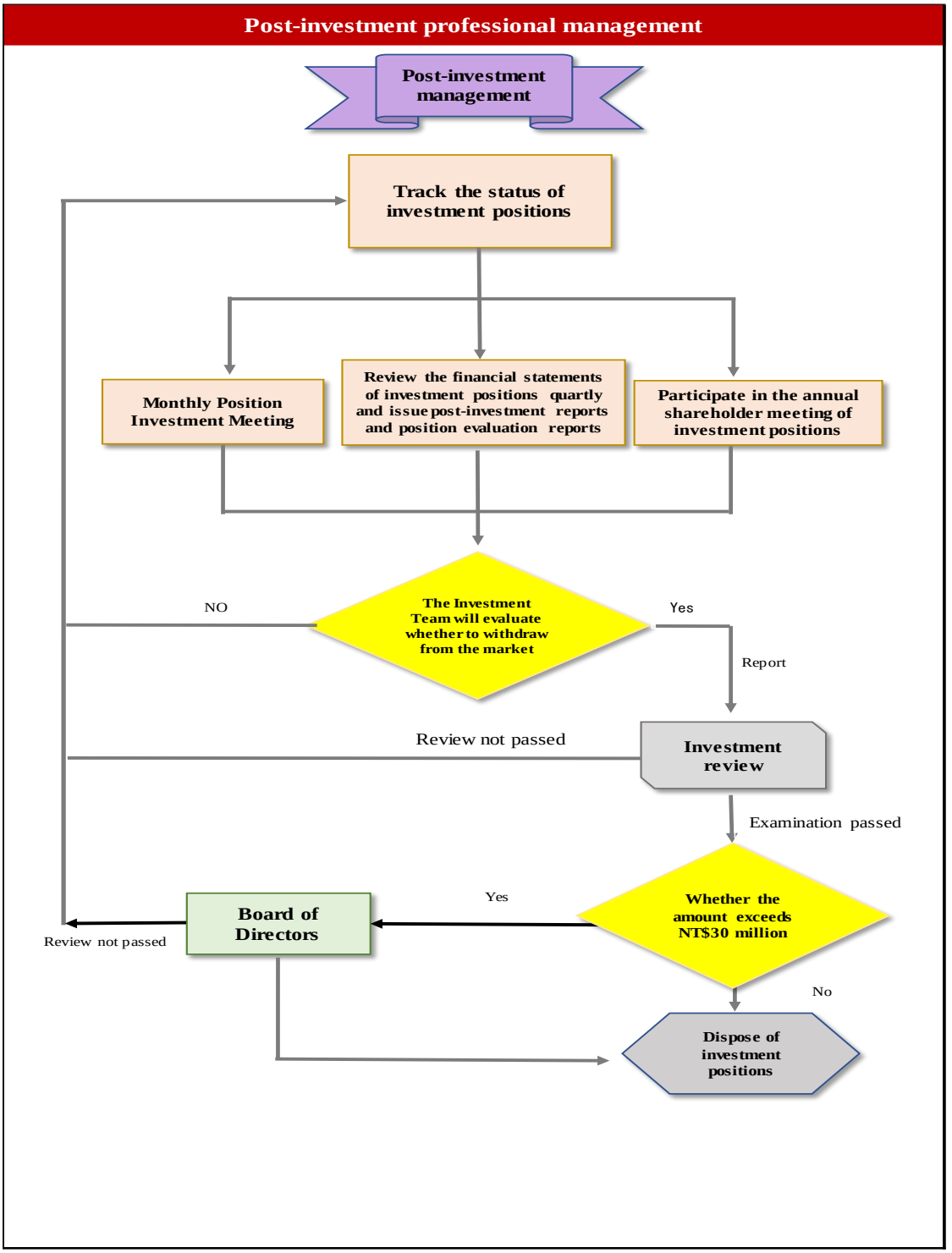
c. Major tracking matters

2) Participate in the shareholders' meeting of the invested company
3) Attend the board of directors of the invested company if necessary
4) Regular/irregular visits to invested companies
5) Counseling mechanism for invested companies

Assist the invested company to establish operating goals and formulate strategies , assist the invested company to formulate and implement merger and acquisition plans , assist the invested company to prepare financial forecasts , assist the invested company to obtain external resources (such as technology, channels and partners, etc.), assist The invested company looks for strategic investors , the certified accountant recommends and assists in the selection , the lawyer recommends and assists in the selection , the financial director or audit supervisor recommends and assists in the selection , assists the invested company in formulating and executing fund-raising plans , and assists the invested company in the capital market Planning , broker recommendation and assistance in selection

6) If the invested company has needs, the company may sign a management consulting contract with the invested company to provide financial management and planning, and operation and management consulting services. The flow chart of post-investment professional management is shown in Figure 2.

Figure 2: Post-investment professional management flow chart



5. Conclusion and Suggestions

5.1 Research Conclusion

According to the literature review, scholars around the world have proposed diversified considerations for the evaluation criteria of the venture capital industry. These factors continue to evolve with changes in the economic environment and policies and laws. Especially in recent years, venture capital companies have faced new challenges such as extended exit times for investment cases. This study summarizes the following five key evaluation criteria through an in-depth analysis of 10 actual cases of T Venture Capital Company:

(1) Differences in evaluation criteria: The evaluation criteria for investment cases vary depending on the investment stage and project characteristics. In the early stages, the importance of the entrepreneurial team may exceed the technical level, while in the later stages, more emphasis is placed on market acceptance and the feasibility of the business model. In addition, the investment preferences and perceptions of venture capital companies will also affect their decisions.

(2) Find the right team and timing: At different stages of development of a new startup, its risks and investment returns also vary. Although early-stage investment cases have higher risks, the potential returns are also greater, while late-stage investment cases have lower risks but higher valuations, which are suitable for investment strategies that pursue stable returns (Fang Songren et al., 2021).

(3) The importance of technology and business models: In addition to technological innovation, effective and sustainable business models are equally critical for new startups. As technology advances, the complexity of business models increases, and entrepreneurial teams need to balance technological innovation and commercial operations.

(4) Clear exit mechanism: When making investments, venture capital companies will consider the maturity of the industry and existing exit cases, which helps simplify the decision-making process. For example, Taiwan's IC design industry has become an investment hotspot because it has a clear exit mechanism.

(5) The Importance of Due Diligence: Conducting comprehensive due diligence is critical to assessing the value and risks of an investment. Investment firms need to verify the information provided by the new startup and evaluate its market potential and the reasonableness of its funding needs. To sum up, the evaluation criteria of venture capital companies are constantly adjusted with changes in the market environment to cope with the uncertainty and complexity in the investment process. Effective evaluation strategies not only help reduce investment risks, but also increase investment success rates and returns.

5.2 Research Suggestions

Venture capital companies play a key role in the investment field. Their core ability is to identify innovative companies with great potential, which is like finding pearls in a vast ocean. In the investment world, being able to discover the next unicorn company is a highly competitive performance for every venture capital company. Ideally, professional venture capital companies will make investment decisions based on the basic principle of maximizing profits. However, in reality, these decisions are often affected by the decision-maker's personal background, experience, preferences and intuitive impressions, and these subjective factors may have a significant impact on investment results.

Faced with this challenge, venture capital companies need to develop a more objective and reasonable evaluation mechanism. To avoid the limitations of past experience and intuition on decision-making, the key is to establish a scientific and quantitative evaluation model. This type of model can effectively reduce the impact of personal bias on investment decisions by quantifying different evaluation indicators, thereby improving the success rate of investment.

In practical operations, venture capital companies can use advanced technologies such as data analysis and machine learning to improve the accuracy of evaluation models. These technologies can process and analyze large amounts of data to help investors understand investment projects more comprehensively from both macro and micro levels.

Ultimately, the goal of a venture capital firm is to find investment projects that can both bring good returns and have long-term growth potential. Therefore, this study recommends that future relevant research should further explore how to further optimize the venture capital evaluation model in order to effectively deal with the uncertainty and complexity of the market while maintaining a high degree of professionalism and objectivity.

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