

CHAPTER 5

RESULTS FROM EMPIRICAL RESEARCH

This chapter displays the results obtained from the empirical research. Data is presented separately by each company, starting with the three “traditional” venture capital companies and moving forward through the life insurance company, the industrial bank and finally the asset management company.

The main objective of this chapter is to explain the framework that constitutes each venture capitalist's investment strategy. As mentioned in Chapter 2, the results derive from the interviews held with top management from each of the six financial institutions contained in this research paper.

5.1 Corporate Venture Capital Firms

The three venture capital firms included in this section belong to the 38.80% of corporate venture capital firms that participate in the overall Taiwanese industry (2002). They are called “traditional” by several experts because in good theory, they tend to follow a very conventional approach of venture capital investments according to literature reviewed in Chapter 3 and to other literature available. However, as it will be shown, not all of these companies actually follow that “traditional” way of doing investments.

5.1.1 Corporate Venture Capital Firm A (VC Firm A)

This company was established almost ten years ago. Their actual capital under management is around NT\$ 3.5 billion (2003). As a traditional venture capital firm, VC Firm A manages a number of funds that are created through the collection of capital. For this company, an interview with one of the fund managers was held.

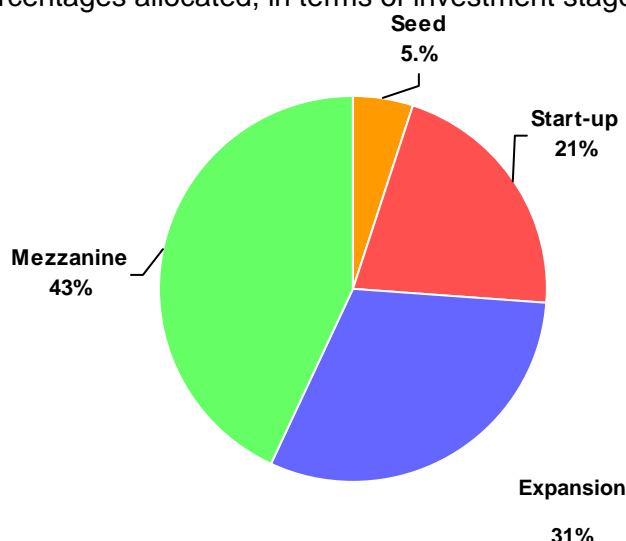
5.1.1.1 Sources of capital

Sources of investment capital are mainly insurance companies, Financial Holding companies, commercial banks, and even individual investors. Even though percentages for this sources were not provided, it was mentioned that institutional investors made the majority of the capital. This providers of capital for investment are completely brought to the company by the top management of VC Firm A (CEO, Senior Vice Presidents, etc.).

VC Firm A’s fund manager affirms that institutional investors do not tend to think ahead and understand that these types of investments must be conceived as long-term investments; those institutional investors, therefore, only seek short-term reasonable returns, since they can’t bear a high level of risks. The fund manager also noted that, in the other hand, individual investors tend to be more willing to embrace higher risk but with higher returns in a considerable percent of time (30%). To the question of how this diversity of capital sources may affect their investment strategies, VC Firm A’s fund manager said that they must design a strategy that can fulfill the requirements of both types of investors. This means that VC Firm A will invest mainly in later stage start-up (expansion and mezzanine) companies in order to especially satisfy the risk aversion behavior of those institutional investors.

5.1.1.2 VC Firm A’s Asset Allocation

The estimated percentages allocated, in terms of investment stage for VC Firm A are:



Source: VC Firm A fund manager.

Note: Data calculated by investment amounts. Percentages are the total sum of investments in all funds that the firm manages.

Percentages of asset allocation were not provided in terms of industry; however, they particularly mentioned the preference in the high-tech sector, including semiconductor, wireless, optoelectronics and software industries. According to the interviewed fund manager, one of their newer funds, is primarily focused in biotechnology. Another fund is labeled as “aggressive” by the fund manager as it’s said to be focused in start-ups developing new technologies such as Ultraband (technology capable of combining video, voice and data into a single IP connection) for example.

In terms of geographic asset allocation, VC Firm A didn’t provide specific percentages, but it affirmed that it concentrates most of their investments in Taiwan. Indirect investment in start-up companies established in the Mainland China is also done upon approval of the Taiwanese Ministry of Finance. They also invest in the United States through very interesting methods:

- **Outsourcing:**

Funds are invested in other well-established, prestigious venture capital firms in order to “learn” from them and apply that knowledge into their own investment operations. Also to diversify their own investment risk. All of these venture capital firms are said to be located in the vicinities of the Bay Area, San Francisco, California, USA.

- **Direct investment in high-tech start-ups:**

Also, all of them located in the Bay Area. Interesting to note that the main requisite to invest in these companies is that the founder must be either a Taiwanese immigrant or an ethnic Chinese entrepreneur. According to his past experience, VC Firm A’s fund manager believes that with this criterion, his company would avoid future problems of communication with the entrepreneur. Also he affirmed that ethnic Chinese entrepreneur don’t lose their entrepreneurial spirit so easily.

VC Firm A has access to potential candidates especially through a network of investment bankers, industry experts such as lawyers, accountants, government officials and even other venture capital companies. The interviewed fund manager affirms that historically, most of the successful cases come from firms that were referred by this network of professionals highly linked to the company.

They also do active search; first focus on the industries that they think have higher potential in the market, then identifying the main and more important players in that industry.

5.1.1.4 VC Firm A's General Investment Criteria

The most important quality that a prospect start-up must have is a full-committed, well-experienced and prestigious management team. Among the other qualities that this management team must have are good interpersonal skills that can help them present a down-to-earth business plan but with intact entrepreneurial spirit.

Regarding the start-up company itself, VC Firm A prefers companies that demonstrate to have a well-designed business model. They rate this as more important than a company just having a new product to market or a new market to enter.

Another important point here, is that since VC Firm A has a certain degree of risk aversion, it tends to invest mostly in firms that are already being invested by other venture capital firms.

5.1.1.5 Pre-Investment Activities

VC Firm A principally studies the fundamentals of the start-up company, meaning determining the potential of the firm to succeed in a reasonable period of time, studying its financial position over the years and also checking the company's conditions through its business network, including customers and suppliers.

If a start-up company fulfills VC Firm A's initial criteria, a valuation process is initiated. The company usually doesn't do deal structuring. In most of cases, a 100% of funds

to be invested in that start-up are allocated. If in the future the start-up requires additional funding for its next life cycle, VC Firm A can assist it to find new investors (other venture capital companies, etc.) or by allocating capital from another fund they manage, but the interviewed fund manager noted that this is mostly the exception rather than the rule as most of their investments are allocated in expansion and mezzanine stages.

VC Firm A doesn't necessarily requires a member in the board of directors of the invested start-up company. Sometimes, the percentage they hold is rather small. However, if that's the case, they will at least ask to have a supervisor to the board of directors.

5.1.1.6 Post-Investment Activities

Each start-up company in which VC Firm A invests must provide a financial and business report each quarter. The business report points out relevant events that happened during the time in question, such as the replacement of key personnel or addition or loss of important customers. The interviewed fund manager pointed out that a very common situation when problems start in a company is when key management member leaves the company.

In addition, VC Firm A will continue with the periodic assessment of conditions of the start-up with its current customers and suppliers. Further supervision of the company's business is carried out by either the member in the board of directors they control or the supervisor to the board that they ask to have previous to the investment.

The last resource of monitoring is done through the other venture capital companies that also invest in the start-up firm. VC Firm A will constantly follow the invested company by keeping an information flow with some of those other venture capitalists.

5.1.1.7 Added-Value Services Offered to the Start-Up firm

VC Firm A confirms part of the venture capital theory reviewed in previous chapters, by offering the investees business consulting services in diverse areas such as finance, marketing and human resources management. It affirms its commitment to help the start-ups as an active participant of their business. The company rarely has the technical capability to help the start-ups in technology-related issues as the engineers that work for VC Firm A are not plenty and are usually at full capacity managing and supervising both potential and actual investments. The company also affirms to provide the invested start-ups with a wide and useful network of professionals.

5.1.1.8 Exit Strategies

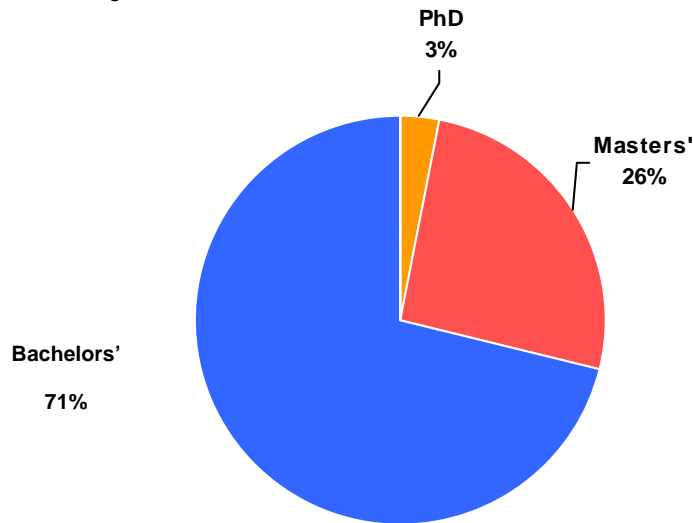
The interviewed fund manager affirmed that the company considers this part from day one of the investment. As any other venture capitalist, the company views an Initial Public Offering (IPO) as a successful method to realize and exit an investment. However, they also consider the “Taiwanese Gray Market”, which is a secondary market to buy and sell private equity of start-up and mature firms, as a highly liquid method for exiting investments. In this market, as long as the invested company is in good conditions, normally venture capitalists have a good chance to realize satisfactory profits. Mergers have also been done but are not as common as the acquisitions mentioned before. But of course, as the success rate of venture capital investments is not so high, liquidations and write-offs are quite common in today’s markets.

5.1.1.9 Employee Education

The company has a preference for multi-disciplined professionals that can have knowledge in both technical and business fields. However, according to information provided by the interviewed fund manager, engineers in the company are not a long. The most interesting aspect regarding their human resources is that they’ve had some problems with engineers that are not highly satisfied with their job and eventually opt to leave the company in search for more technically oriented jobs.

Figure 11 displays the current investment team’s educational level at VC Firm A:

Figure 11. VC Firm A's Investment Team Education Level



Source: VC Firm A's fund manager.

5.1.2 Corporate Venture Capital Firm B (VC Firm B)

This venture capital fund manager is relatively new in the Taiwanese market, being established less than ten years ago. It is currently managing an amount between NT\$4.0 billion and NT\$ 3.5 billion. In this case, one of the account officers (known in this industry as AO) was interviewed.

5.1.2.1 Sources of Capital

Although specific percentages were not provided regarding the amount invested by each limited partner, the company disclosed that capital comes mostly from institutional investors such as insurance companies, banks, and financial holding companies. Individual investors and foreign institutional investors are a quite small part of the overall sources of capital. To find, contact and convince those investors is the sole responsibility of the top-level management of VC Firm B.

This sort of investors definitely affects the company's investment strategy, according to the AO interviewed, in the sense that they follow a highly conservative approach, which will be discussed later.

5.1.2.2 VC Firm B's Asset Allocation

This venture capital manager follows a very unique approach. They only invest in start-up companies that have had at least two years of gross profit. This is by far the most important requisite to consider investment in a company. The rest of their investment criteria will be presented in the next section. Due to this, the company doesn't establish scenarios considering earlier or later stages of business cycles of the entrepreneurships. Percentages regarding the stage of invested companies were not provided, as the company didn't establish those parameters when it poured money into those start-ups. However, the interviewee confirmed that most of the invested companies are quite mature and mostly in semiconductor, IC design, optoelectronics, internet, telecom, chemical and biotech technologies. This is good for the analysts of VC Firm B as it helps them study more reliable information regarding the patterns of the start-up's life.

In terms of geographic allocation, it was noted that investments made in companies outside Taiwan are rare (only the United States) and no investments are directed at companies located in Mainland China. The company does not "outsources" a portion of its capital into other venture capital firms.

5.1.2.3 Sources of Deal Flows

The company also relies on its network to find most of the investment deals, especially in other financial consulting firms, investment bankers, engineers, lawyers, etc. But the most interesting part is that once a week, each AO must present to the investment committee, two suitable candidates for investment. Therefore, it seems to be that although referrals are important, the biggest part of deal flows comes from an active search done by the AO's. The interviewee mentioned that only in one case, the firm has invested in an start-up found through a "cold call" (call made directly from the start-up to the VC Firm in search of capital).

37

5.1.2.4 VC Firm B's General Investment Criteria

As mentioned previously, the company only invests in start-up companies that have been profitable for at least two years in order to significantly reduce their risk.

Evidently, the projections of growth and of generation of future profits must be promising as they are clear that “past performance does not assure future returns” (“過去的績效並不代表未來的表現”). The company automatically rejects proposals that come from companies seeking incubation or turnaround funding.

Essentially, VC Firm B only invests in firms that are already invested by other renowned venture capital companies. The interviewed AO only recalls a few cases in which the company was the first investor jointly with another venture capital company.

In a second layer of importance, VC Firm B cares about the credentials of the founders and the management team of the start-up firm, as they must be able to provide a list of “heavy-weight” professionals linked to the industry that can provide good feedback about them. The track record of that management team is also a point to consider in their investment strategy, as well as their leadership skills.

Also, corporate fundamentals related to the nature of the start-up’s products, the industry’s growth potential, the location of the market and competitors’ situation are common issues to analyze in order to predict the viability to invest in a specific enterprise, but especially because these factors tend to have a significant effect on any corporations financial results.

5.1.2.5 Pre-investment Activities

VC Firm B first confirms the financial and fundamental health and potential of the targeted start-up company. Interestingly, they also assess the conditions of the human resources such as reward systems and performance evaluation.

38

Surveys done through customers, suppliers and business partners are also done. Analysts at VC Firm B also analyze the relationship that the start-up has had over the years with the other venture capital firms involved.

VC Firm B doesn’t follow the American approach of venture capital in terms of deal

structuring. They essentially commit all available funds just after the investment agreement is signed.

5.1.2.6 Post-Investment Activities

In most of cases, VC Firm B does not hold a position in the board of directors of the start-up company, but they welcome any opportunity to do so. Evidently, this will facilitate their monitoring and risk control strategies, which are usually carried out by receiving periodic reporting from the invested start-up company in terms of financial reports. In addition, periodic feedback from the start-up's suppliers, business partners and customers is requested. Attention is also focused on important team management members in case they leave the company.

Even though VC Firm A does not possess a high quantity of business and technical professionals, the company boasts a high degree of willingness to serve each of its invested companies as an strategic business consultant in areas such as accounting, financial management, human resource management and industrial management. In several cases, employees of VC Firm B have spent as long as three months in a specific invested start-up to serve as marketing or financial managers. They also try to actively participate in the recruiting process of top management.

As mentioned before, their monitoring process is highly focused at assessing the financial health of the start-up company, since VC Firm B's past experience proved that most of entrepreneurial companies failed because they ran out of capital to effectively operate the main course of business.

39

5.1.2.7 Added-Value Services Offered to the Start-Up Firm

VC Firm B only helps its invested start-ups through the strategic business consulting empowerment explained above. They also defend the importance of the wide network of business professionals and potential customers and business partners that they're able to provide, especially before an IPO process since they claim to have a high ability to find the most suitable underwriter for the start-up firm.

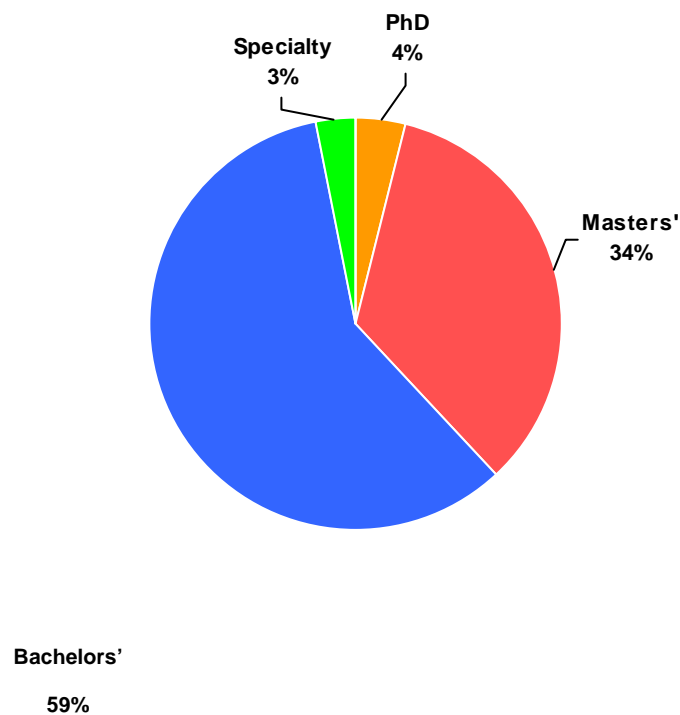
5.1.2.8 Exit Strategies

They claim that when a company is analyzed from the first time, probability assessment of an eventual IPO, secondary sale, or acquisition is performed. VC Firm B's top-level executives are in constant and frequent discussion on how and when to exit specific investments and in many occasions, they tend to follow some of the actions of the other venture capitalists investing in the start-up company.

5.1.2.9 Employee Education and Background

VC Firm B provided more plentiful information than VC Firm A regarding this issue. The educational level of their team is presented in Figure 12:

Figure 12. VC Firm B's Investment Team Education Level



Source: VC Firm B's Account Officer.

40

Although the interviewed AO didn't provide specific data regarding the background of those working for VC Firm B, he pointed out that there are several employees with

engineering background, but the great majority are experts in both accounting and financial management fields. An interesting point is the concern of having engineers managing these late-stage venture capital investments, since that may not be as “challenging” for them, meaning a valid reason to leave the company.

So far, VC Firm B has not designed an employee development program to improve the competitiveness level of their investment team. They admit that such a program is quite necessary and useful in order to keep AO’s and other top management updated with developments of new technologies and future trends of the venture capital industry, however, due to the fact that the company pursues such an aggressive search of deal flows, it’s clear that these employees would rarely have time for that kind of training programs.

5.1.3 Corporate Venture Capital C (VC Firm C)

This venture capital firm has been in the market for almost 15 years and as of December 2003, it had capital under management of more than NT 5.0 billion. The firm also has established branch offices in five locations outside Taiwan in order to expand their investment horizon and have a competent support to their international investments. An interview with the company’s Chief Financial Officer (CFO) was held. After visiting the company in its Taipei office, it was more than evident that VC Firm C possesses a relatively bigger structure than VC Firm A and VC Firm B. Ironically, they had a more open attitude towards disclosing information about their business.

5.1.3.1 Sources of Capital

The major sources of capital for investment in VC Firm C are institutional investors such as Taiwanese insurance companies, financial holding companies, banks, government, corporations and also foreign institutional investors in which pension funds hold a significant stake. The CFO acknowledged the fact that by having well-established branches in major cities in Asia and the United States, VC Firm C has a strong capability to collect capital from foreign institutions.

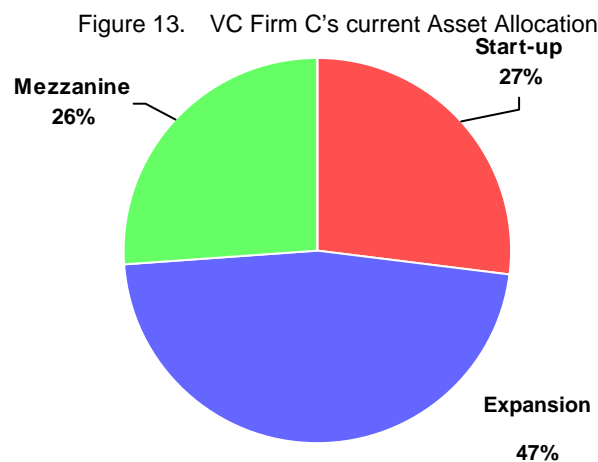
The company doesn’t believe that this diversity of sources has a direct impact in its

own venture capital investment strategy, as both the management team and clients are quite confident that VC Firm C's expertise and experience can bring up the best returns possible.

Fundraising activities will begin approximately one year before the expiration of the commitment period. This fundraising is also responsibility of the highest executives of the company.

5.1.3.2 VC Firm C's Asset Allocation

In terms of stage done when the company made an investment, Figure 13 shows VC Firm C's asset allocation by adding up all funds managed:



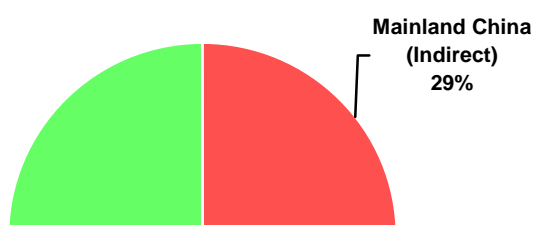
Source: VC Firm C's CFO

Interesting to note that the company actually allocates funds in seed capital, but the amount of investment is small and close to 0%. The CFO of the firm relates this to their past experiences and confirm that they will only fund entrepreneurs that have proved potential in a certain period of time. The company also shows a close balance between investments placed in start-up stage in comparison with mezzanine investments. The CFO defends this situation as "the harmony between high-potential investment and investment realization".

42

The company also provided data regarding geographical asset allocation. Figure 14 describes as follows :

Figure 14. VC Firm C's Geographic Allocation



USA

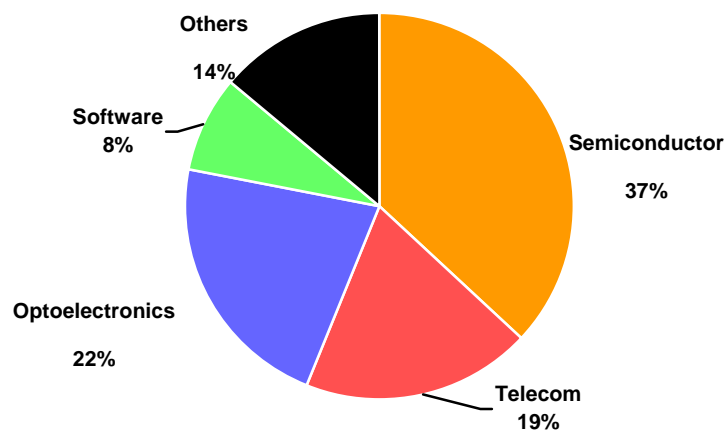
12%

Source: VC Firm C's CFO

Note: Data estimated by adding up all funds managed by the firm.

VC Firm C also provided asset allocation information in terms of the industry in which the pour capital. Figure 15 displays the results of combining all funds managed by the firm:

Figure 15. VC Firm C's current Sector / Industry Allocation



Others include industries highly related to industries to Semiconductor, Telecom, Optoelectronics and Software (not details disclosed).

Source: VC Firm C's CFO

It's also important to note that the company allocates the 100% of their capital to invest directly into start-up firms. The size of the company, the great quantity of resources and the significant number of years of experience in the company doesn't

give VC Firm C the need to outsource capital to other venture capital companies, according to the CFO.

5.1.3.3. Sources of Deal Flows

The greatest part of potential companies that become candidates for investment are referred by VC Firm C's network of strategic partners and professional connections located in the countries where it has presence.

5.1.3.4 VC Firm C's General Investment Criteria

One of the most important points to look in a company is the potential to establish markets in an international level. The company must possess a core competence. The product must have an impact on the potential consumers by offering added-value characteristics, must have proper distribution channels and the entrepreneur must prove that he has skills to decrease production costs in time.

VC Firm C also invests in start-ups that are being already invested by other first-tier venture capital companies, but they don't mind to be the first one on board. That board and the management team must have verifiable experience, measurable leadership skills and a long list of prominent professionals in several fields that can recommend them.

A definite criterion is that VC Firm C must in all cases be able to have a seat in the start-up's board of directors. They acknowledge this as an imperative step.

5.1.3.5 Pre-Investment Activities

VC Firm C will start by evaluating the market size, growth potential (market and start-up) and the competition environment. Exhaustive surveys with existing customers, suppliers and business partners are also done. The CFO emphasized the importance of executing sensitivity analysis of the start-up's business, including factors such as working capital, R&D funding, input and output price fluctuations and general business environment conditions. The employee survey the firm carries out, beside the common performance reviews and reward systems, also includes sections such as appraising the ways the company promotes innovation and the opinion and

expectations that the employees have of their own company. The company does not execute deal structuring.

5.1.3.6 Post-Investment Activities

VC Firm C's analysts will visit and assess the start-up's situation once a month and report the most important points to their superiors. Evidently, the fact that always the company will control a seat in the board of directors gives the company a high-level of on-site supervision and control. According to the CFO's past experience, most start-ups fail due to financial complications as well as time-to-market difficulties of its products; therefore, the company will always keep special attention in these aspects. Employee, customer, supplier and business environment status assessment is also done at least quarterly. Also, constant feedback and interaction with the other shareholders of the start-up is performed.

5.1.3.7 Added-Value Services Offered to the Start-Up Firm

They increase the real value of the investment and of the start-up by serving as an strategic business consultant that will assist in product promotion and marketing, financial management and in technology transfer, which means that VC Firm C's highly specialized engineers (or its professionals belonging to its network) will help the company in sensitive technical issues such as solving problems in research and development, production, etc. For the CFO's point of view, having a participative presence in a constant basis in both technical and managerial areas of the start-up is something that only a few venture capitalists can do well, because that requires specialized resources that are not available for everyone. The CFO recalls helping some of its investees in patent application processes in the United States.

As a first-tier venture capital company, VC Firm C also assists the invested start-ups in finding new customers, business partners and suppliers, not only in Taiwan, but in the major markets where the company has a presence.

45

The company has also helps the start-up firm get further injections of capital through other highly recognized venture capital fund managers. Also, it has "loaned" some of its professionals to serve in the management team of the start-up firm on a temporary

basis when necessary. Help those entrepreneurs hunt suitable professionals is almost like a routine job for this venture capital firm.

5.1.3.8 Exit Strategies

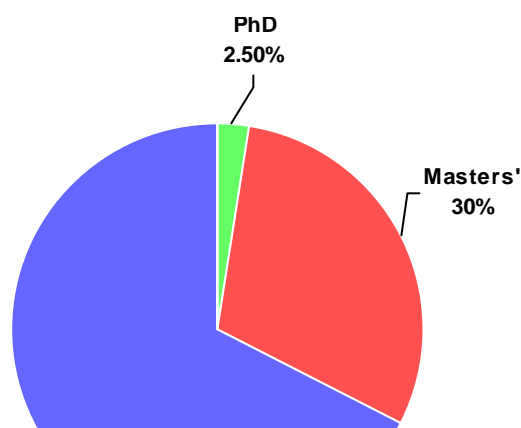
Strategic realization of investments is also periodically assessed in order to determine the best time and the right way to exit. The company also seeks their investments to be realized through IPO's. Share sales to an specific buyer, methodology known as "block trade" are pretty common too. According to the interviewed CFO, historically these two options have provided quite generous returns to VC Firm C. The company keeps constant communication with bigger firms that might be willing to acquire any of those start-up companies. In general, VC Firm C doesn't sell its holdings through the "gray market". Liquidations and write-offs are a reality in this business and as the CFO mentioned, they must be faced in the right time.

5.1.3.9 Employee Education and Background

After checking VC Firm C's employees' backgrounds it was confirmed that this first-tier company has high-quality professionals in several fields of expertise. Many of them come from elite US universities in fields such as business, engineering and even law. The CFO affirms that the company hires engineers with business training (preferably an MBA degree) and years of experience in their field of expertise, which is considered as a standard profile for members of the investment team. In addition, experienced professionals in industries such as venture capital, investment banking, auditing & consulting also conform part of VC Firm C's management team.

In terms of educational level Figure 16 explains graphically,

Figure 16. VC Firm C Investment Team's Education Level



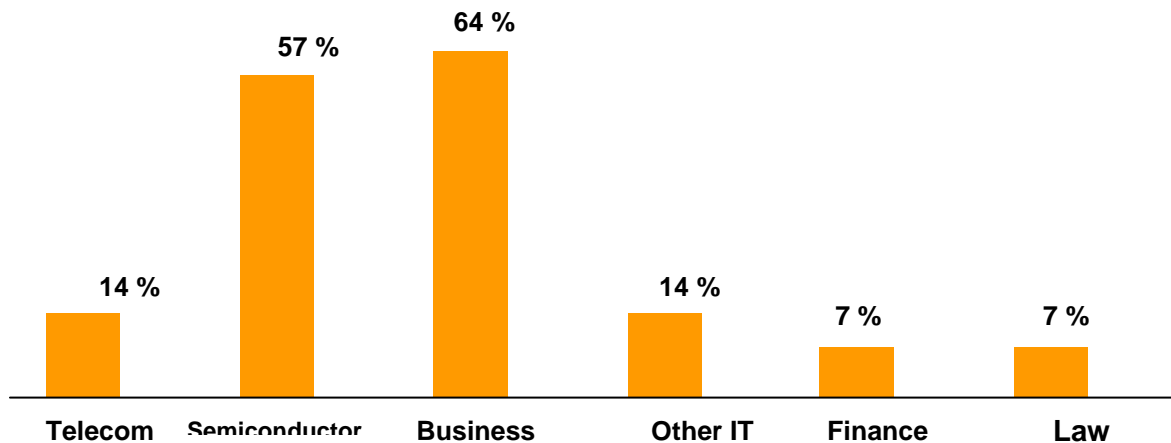
Bachelors'
67.50%

Source: VC Firm C's CFO

Note: Data shows only human resource in Taiwan office.

VC Firm C also provided data regarding the areas of expertise of the investment team, which is described below in Figure 17. The CFO assumed that a great number of their professionals have more than one area of expertise.

Figure 17. VC Firm C Investment Team's Areas of Expertise



Source: VC Firm C's CFO

Note: Data assuming a professional may have one or more areas of expertise.

The CFO also explained the current employee professional development that the company offers. The program is designed to provide the management team with training especially focusing in new technological trends that may have the potential to be world drivers in the future. They also arrange technical workshops with high-tech enterprises (many in which the company has already invested in) to provide VC Firm

C's team a deeper understanding of new technologies. Training in other fields such as finance, accounting is also arranged with other institutions.

5.2 Life Insurance Company

The life insurance company interviewed is one of the market leaders in Taiwan in terms of customer base and revenues. It has been involved in venture capital investments for more than a decade. Originally, it was encouraged to invest in venture capital by the Taiwanese government who was, at the time, working to develop the then nascent industry in the island. The amount allocated into this type of investment was not provided but was said to be higher than NT\$ 4.0 billion. The department in charge of these investments is called Project Investments, which is also handling other private equity investments, especially government-backed infrastructure development projects such as Taiwan High-Speed Railway (台灣高鐵) and Taipei 101 Building. Two of analysts in charge of venture capital investments were interviewed.

5.2.1 Sources of Capital

Insurance companies collect funds from insurance policies that belong to customers. That capital must be reinvested in order to generate both the money that the life insurers will have to pay to those policy holders as well as their own profits. A section of these funds are assigned into venture capital. This life insurer considers itself as a very conservative company; therefore, the money poured into this section is less than 1% of the total amount of funds available for all kinds of investments.

48

5.2.2 Sources of Deal Flows

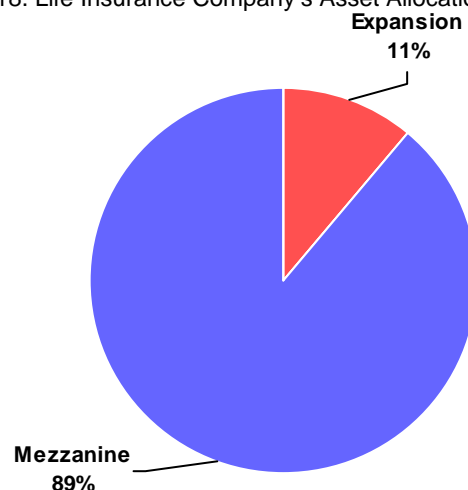
The company allocates very few of the available capital into direct investments in start-up firms, but this will be discussed in the next section. The companies in which it has directly bought common stocks were mostly referred by its closest network of financial institutions and professionals. An interesting aspect is that this life insurer

actually prefers to refer the companies that it considers to have a good potential to the venture capital managers that actually manage part of its investments.

5.2.3 Life Insurance Company's Asset Allocation

The interviewed analysts acknowledged that the company out sources around 95% of the capital assigned to corporate venture capital fund managers with similar profiles to the ones described in section 6.1. Only an approximate 5% of the money is utilized to purchase common stock of high-tech start-up enterprises. Reasons for this particular asset allocation were said to be the fact that the company follows a very conservative approach towards risk and that the management realizes that those venture capital fund managers possess a lot more of resources and skills to predict the potential in those risky entities and to control the risk involved with such kind of investments. Out of this 5%, the company has invested in the following stages:

Figure 18. Life Insurance Company's Asset Allocation by Stage



Source: Life Insurance Co.'s VC Investments Analysts

Although specific percentages were not provided, the insurance company has invested in sectors such as IC design, software, wireless communications and biotechnology. The biotechnology part was pointed out to be significantly smaller than the other ones in terms of amount of investments. The company only invests in Taiwanese enterprises.

5.2.4 General Investment Criteria

After being informed that this insurance company only invests a 5% of its overall venture capital wealth directly into start-up firms and after observing Figure 18 above, it's almost a confirmation that the general investment criteria is highly restrictive. This was corroborated by the analysts, who affirmed that the company only would invest in enterprises that own a prominent, experienced and highly recognized management team. In addition, it would have to be a company already supported by outstanding venture capital companies.

5.2.5 Pre-investment Activities

The analysts agreed that their insurance company has fewer tools to assess a specific start-up's growth potential, market conditions' environment and other aspects that are essential to look up for this type of investments. This is why the company follows top-tier venture capitalists when doing direct investments. If the start-up follows the general investment criteria, the life insurer's analysts will collect information from those venture capitalists in order to have a comprehensive picture of the start-up's business conditions and eventually, determine if a direct investment can be executed. The part that can be better assessed by the insurer's analysts is definitely the financial one, because most of the professionals working for this Project Investment Department have financial expertise, but that will be discussed in detail later.

5.2.6 Post-investment Activities

After investing directly into a start-up company, the insurance company will periodically monitor its performance and situation by attending the board of director's meetings and other activities and by reviewing the reports issued every quarter. It's important to mention that sometimes the company has the opportunity to hold a seat in that board of directors, facilitating that monitoring process. The company also will

keep in constant communication with the some of the venture capitalists that also invest in the start-up company who traditionally have high-quality information regarding its status.

5.2.7 Added-Value Services Offered to the Start-Up Firm

The life insurance company doesn't provide services such as consulting, strategic planning or technology transfer to the start-up firm. They confess the absence of enough human and technical resources to assist entrepreneurs with this kind of assistance. However, they believe that they can help the start-ups by referring them to other venture capitalists in order to inject further capital when necessary. Sometimes they also issue recommendations to the board of directors regarding specific issues.

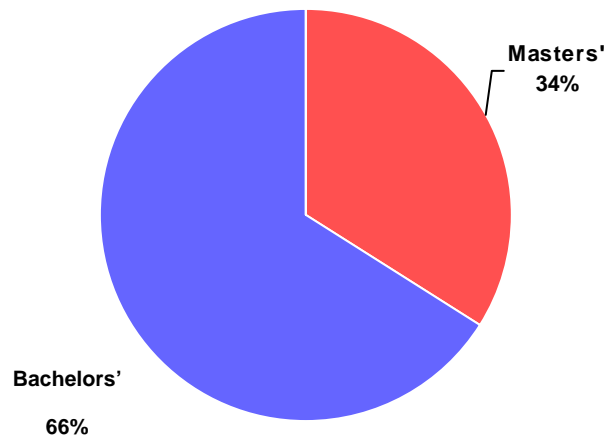
5.2.8 Exit Strategies

As shown previously, most of direct investments are done into mature entrepreneurships that hopefully will achieve an IPO in a near future. The analysts have a basic understanding of how the "gray market" works, but they tend to follow the investment realization actions of those venture capitalists that already invest in the start-up company when it comes to selling the common stocks owned.

5.2.9 Employee Education and Background

None of the members of the investment team in this department does have a technical background such as engineering or biotechnology. Many of them come from other departments inside the same company, such as domestic fixed income asset investments for example. The education level of the investment management team is as follows:

Figure 19. Life Insurer's VC Investments Team's Education Level



Source: Life Insurance Co.'s VC Investments Analysts

The analysts occasionally join seminars on topics related to venture capital and on technological advancements. Up to this date, the insurance company hasn't designed any employee development program aimed at expanding the capabilities of this department in terms of venture capital investments. However, it's interesting to note that several months ago, the company opened a program focused on assisting employees (financial and educational aid) to pass the Chartered Financial Analyst (CFA) Program.

5.3 Industrial Bank

An opportunity to approach one of Taiwanese industrial banks is highly valuable for this thesis as these institutions are commonly believed to have a competent structure to handle venture capital investments. It's important to recall that an industrial bank does not have the same structure and legal restrictions as a commercial bank, which certainly helps its flexibility in some operations such as venture capital investments. An interview with one of the executive vice-presidents of the bank was held. In 2002 the bank was "acquired" by its own recently created Financial Holding Company, in accordance to the issuing of the Financial Holding Company Law in 2001. Previous to that, the bank was mainly owned by the government. The bank has been immersed in venture capital investments in Taiwan for nearly more than 15 years.

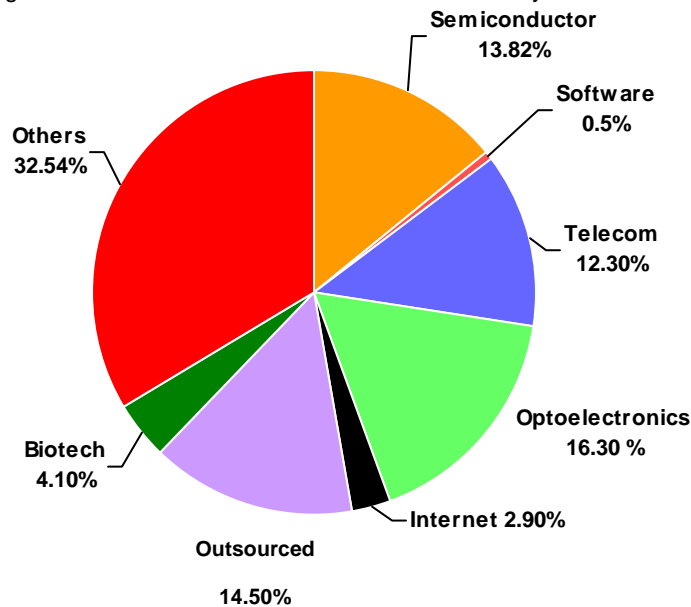
5.3.1 Sources of Capital

Funds allocated into venture capital investments come from the big pool of money that the bank is supposed to invest in an extended universe of options, in order to generate returns that fulfill the general banking cycle.

5.3.2 Industrial Bank's Asset Allocation

Since a significant stake of the bank was owned by the Taiwanese government in the past, a quite large portion of its available wealth (for venture capital investment purposes) was poured into several domestic and overseas venture capital funds such as the Development Fund of the Executive Yuan. The bank also invests directly into start-up companies; figures 20 and 21 display the allocation of capital for that section.

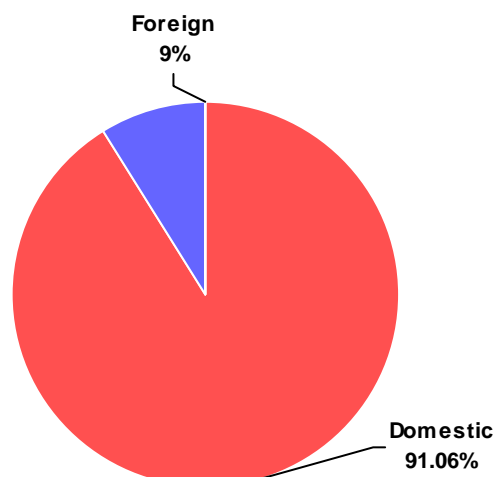
Figure 20. Industrial Banks' Current Sector / Industry Allocation



Source: Industrial Bank's Executive VP

53

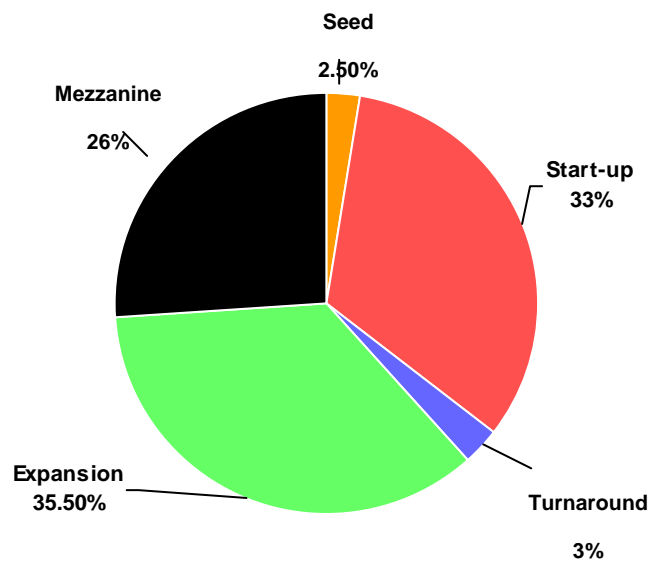
Figure 21. Industrial Bank's Current Geographic Allocation



Source: Industrial Bank's Executive VP

Asset allocation in terms of investment stage was also provided by the bank's executive vice-president. Figure 22 shows the results:

Figure 22. Industrial Bank's Allocation by Investment Stage



Source: Industrial Bank's Executive VP

5.3.3 Sources of Deal Flow

The bank relies on its sophisticated network to find most of the investment options. This network includes the other industrial banks, investment bankers, other venture capitalists, government agencies and industry-related professionals. Sometimes the bank has deals that come from direct requests from start-ups to pour money into them. They also are said to do active search into so-called "hot" industries.

5.3.4 Industrial Bank's General Investment Criteria

Primarily, this Industrial Bank focuses its investments into start-ups that contain a experienced, passionate, talented and prestigious management team. This is the axis of a good venture capital investment, in the words of the interviewed vice-president. The company's product must be emerging, innovative and explosive. The company also pays strong attention into the Research & Development department of the company as is considered one of the heavy-weight drivers of the start-up's future in terms of innovation. In addition, the bank invests in companies that have a balanced expertise in both technical and business fields.

5.3.5 Pre-investment Activities

The bank starts by evaluating the past records of the start-up company's business, including financial, operation and research and development. Further investigation of the start-up's status is done by collecting information from customers, suppliers and business partners. Surprisingly, no employee surveys were mentioned as a pre-investment activity. The company also will analyze relevant information concerning the relationship between the start-up and its current shareholders which most of the times already include other venture capitalists. The bank has done deal structuring in several cases, if the situation reflects it as necessary.

55

5.3.6 Post-Investment Activities

Historically, the industrial bank has followed the traditional venture capital approach of monitoring through active participation in the board of directors. However, for different reasons, sometimes the bank does not own enough common stock of the start-up to demand a seat in the board of directors. If that's the case, it will try to get a supervisor for the board of directors. On a quarterly basis, the company will revise and evaluate the financial reports of the invested start-up and issue recommendations or alerts to the board of directors when it feels it's proper to do so.

5.3.7 Added-Value Services Offered to the Start-Up Firm

The vice-president himself served one occasion as temporary general manager of one of the invested start-ups in a time when the founder was said to be totally focused in the product development process. The bank has always been willing to add value to those investments in the form of strategic and tactical business consultant. The bank also helps start-up companies in searching additional investors when necessary. The interviewed vice-president also affirms that by investing in a start-up company, the prestige that the entrepreneur will receive by having one of the biggest financial institutions in Taiwan investing in it, will be quite useful to do its business, thus, being able to expand its customer base and its potential for growth.

5.3.8 Exit Strategies

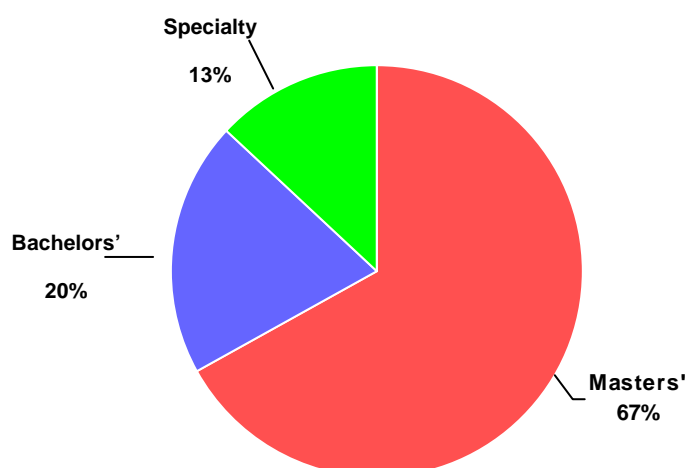
The bank will consider its exit and investment realization options as one of the parameters to purchase a stake in a start-up company in the first place. For its size and strong presence in the venture capital industry, the bank manages to have a good flow of information in terms of options to execute sales of its investments in the Taiwanese “gray market”. The bank is said to plan and coordinate potential IPO scenarios with several investment bankers which facilitate to have clearer horizons on how and when realize good investments.

56

5.3.9 Employee Education and Background

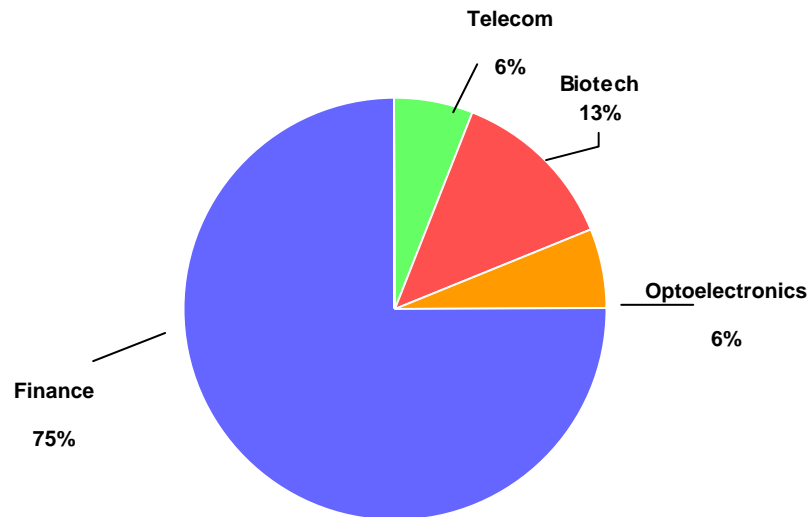
The interviewed vice-president provided information regarding the education level and areas of expertise of the professionals working in venture capital investments. For areas of expertise, the executive VP assumed professionals can have only one. Figures 23 and 24 show the numbers.

Figure 23. Industrial Bank's VC Investments Team's Education Level



Source: Industrial Banks' Executive VP

Figure 24. Industrial Bank's VC Investments Team's Areas of Expertise



Source: Industrial Banks' Executive VP

No details were given whether the human resources managing these venture capital investments come from other departments of the bank such as credit or commercial banking areas.

It was mentioned that the bank encourages its employees (in venture capital investments) to join seminars related to the industry in order to keep updated on its highlights and future trends.

5.3.10 Other Issues Regarding the Industrial Bank

While researching the venture capital investment strategy of this industrial bank, it was discovered that the bank had set up a financial subsidiary a couple of years ago, also responsible to carry out venture capital investments. This subsidiary, with the title of "Financial Consulting Company" can collect funds not only from the bank itself

but also from other sources (including individuals) and pour them into its own venture capital investments.

After further investigation, it was known that this subsidiary executes investments in start-up firms that tend to have a relative higher degree of risk than common firms invested by the bank. The interviewed VP also mentioned that this subsidiary would invest smaller sums of money when comparing to the average size of individual investments that the bank handles itself.

Although little information was available about its investment strategy, the subsidiary was apparently doing many of the steps and activities that “traditional” corporate venture capital firms usually do such as post-investment business consulting and active participation in the invested start-ups.

