



TRENDS IN
LEGAL TERMS IN
VENTURE FINANCINGS
IN ISRAEL
2018 SURVEY

 **SHIBOLET**
WITH RAVED, MAGRISO, BENKEL & CO.

We are pleased to present the results of our survey for the year of 2018, which analyzes legal terms of venture capital (VC) investments in Israeli and “Israeli related” hi-tech companies, and comparing these terms to those common in the Silicon Valley, United States.

As always, this survey was produced in collaboration with Fenwick & West LLP., one of the leading Silicon Valley law firms. Our cooperation with Fenwick & West in producing this survey enables us to also present an interesting comparison, using the same tools and terminology, between the terms commonly practiced in Israel and those commonly practiced in the Silicon Valley.

CONCLUSIONS

Beginning with the already anticipated trends: the growth in the number of investments in high-tech during the year 2018, alongside the increase in the average size of each raise reported in other surveys taken, were also backed by a positive trend that emerged from the results of our survey of the legal terms that were applied during this period.

It is also interesting to note that the decline in the rate of the use of senior liquidation preference rights, having priority over previously issued classes of preferred, which was first observed in the survey for the first half of 2018, was strengthened over the course of the entire year of 2018, where only half of the rounds surveyed applied this right. This low rate of use was observed both in early and in later rounds.

In Silicon Valley the rate of the use of senior liquidation preference rights was observed in less than a quarter of the rounds surveyed.

The rate of use of participation rights continued to hover at less than a third of the rounds surveyed, while in Silicon Valley participation rights were applied in approximately one-tenth of the rounds surveyed. The bottom line is that the results of the survey indicated investments in an optimistic environment, with a growing tendency to adopting legal terms that were increasingly favorable to entrepreneurs as well as investors that invested in previous rounds.

But the significant news arising out of the results of the 2018 annual survey related to what was observed with regards to the more mature companies in the Israeli high-tech ecosystem – those that raised capital in D rounds and beyond. The rate in the volume of later rounds returned significantly, which also explains the increase in average capital raised.

Not only was an increase of rounds of more mature companies observed, but for the first time, alongside the increase in later rounds, there was also an increase in the rate of up-rounds. In all the previous years we surveyed, a correlation was observed between the rate of up-rounds and the rate of earlier rounds. This is the first time that later rounds have been observed in significant numbers, along with a general rise in valuations:

A rate of 89% of up-rounds alongside a rate of 28% of up-rounds of D rounds and beyond. Focusing on the D rounds surveyed, it was observed that only a mere of 5% were down-rounds!

We hope that you find this survey useful and interesting.

To be included in our email distribution list for future editions of this survey, please go to: www.shibolet.com

To receive a copy of the Fenwick & West Venture Capital Survey summarizing venture capital terms in the Silicon Valley, please go to:

www.fenwick.com/vctrends.htm

For additional information about this survey, please contact:

Adv. Lior Aviram at: l.aviram@shibolet.com

Adv. Limor Peled at: l.peled@shibolet.com

Tel: +972 (3) 7778333

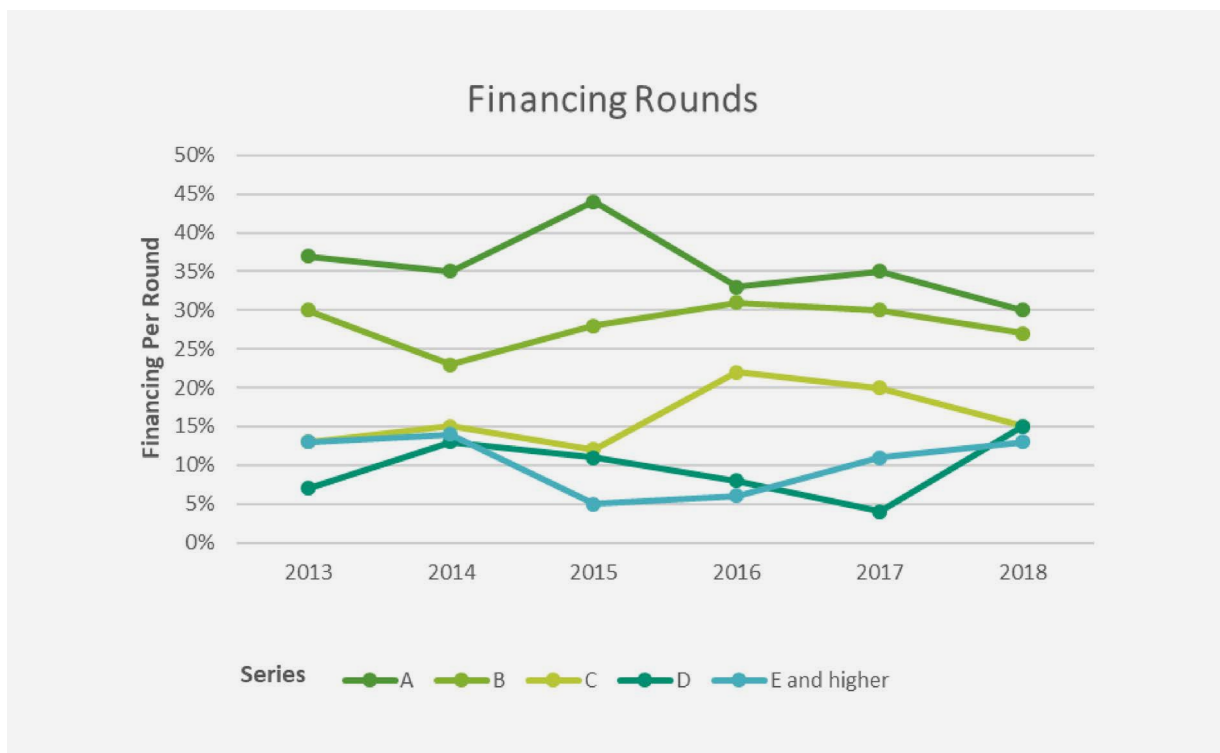
TRENDS IN LEGAL TERMS IN VENTURE FINANCINGS IN ISRAEL 2018 SURVEY

BACKGROUND

We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during the year 2018. Our survey does not include financing rounds of less than US \$500,000. The tables below also show, for purposes of comparison, the results of our previously released surveys.

FINANCING ROUND

The financings closed in 2018 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:



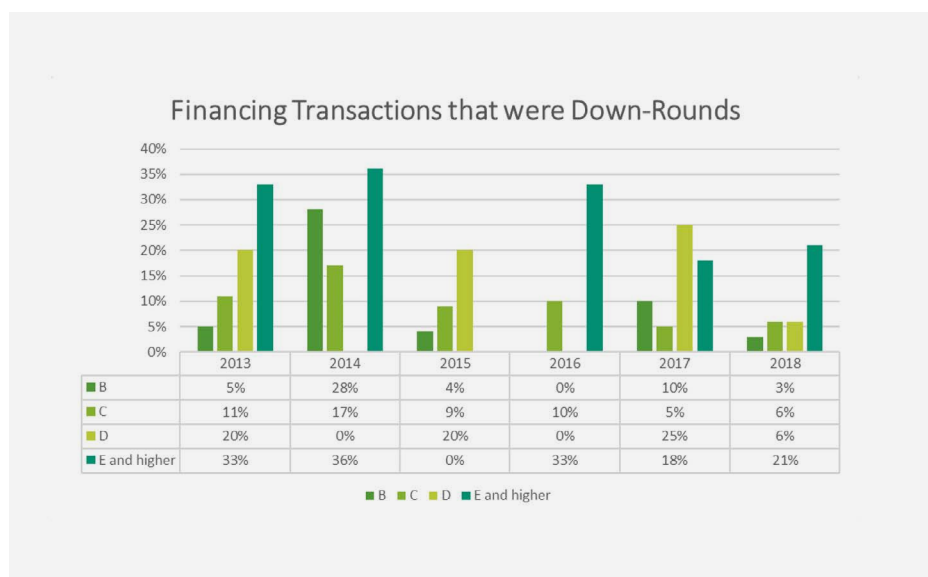
PRICE CHANGE

The financings closed in 2018 and in the periods covered by our previous surveys may be broken down by the directions of the change in price as compared to each company's respective previous round, as follows:



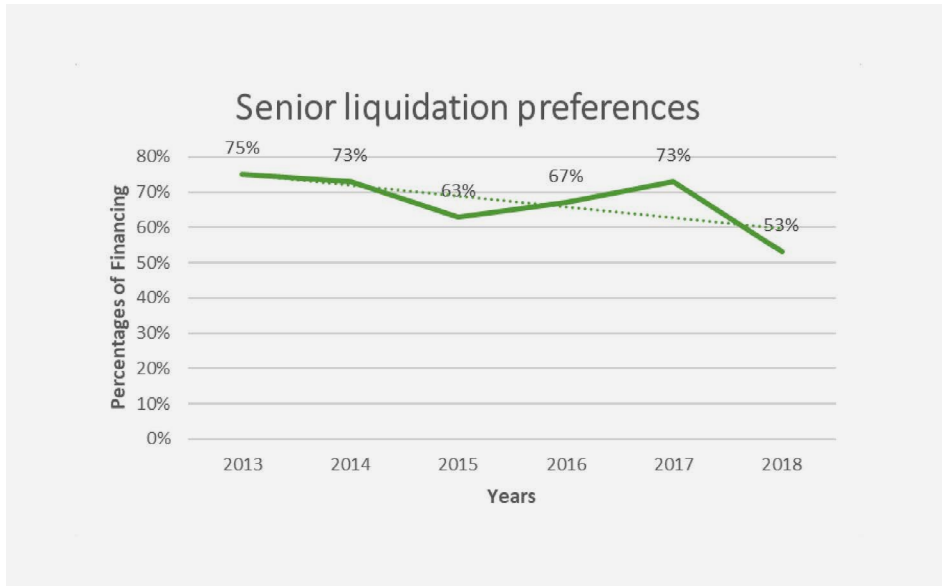
FINANCING TRANSACTIONS THAT WERE DOWN-ROUNDS

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:



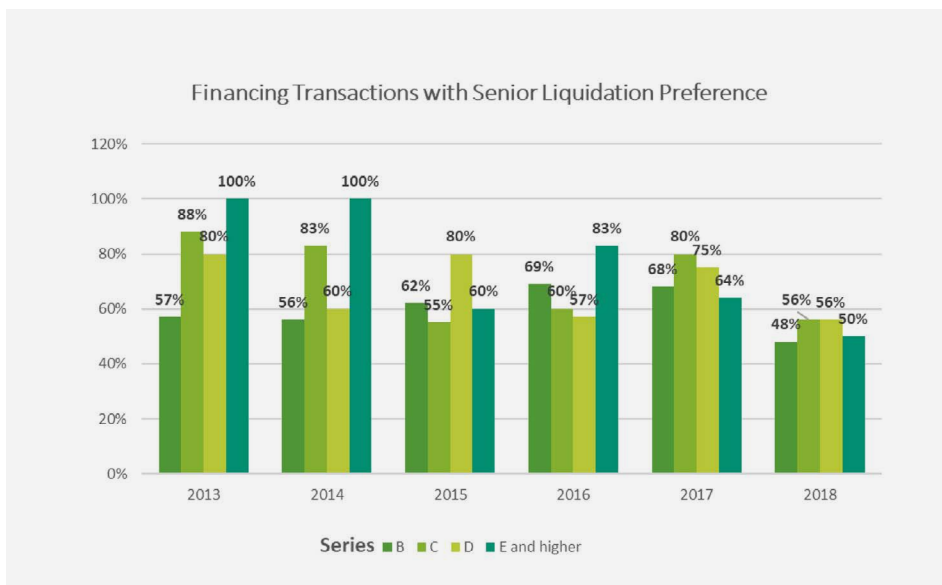
LIQUIDATION PREFERENCE

Senior liquidation preferences were used in the following percentages of financings:



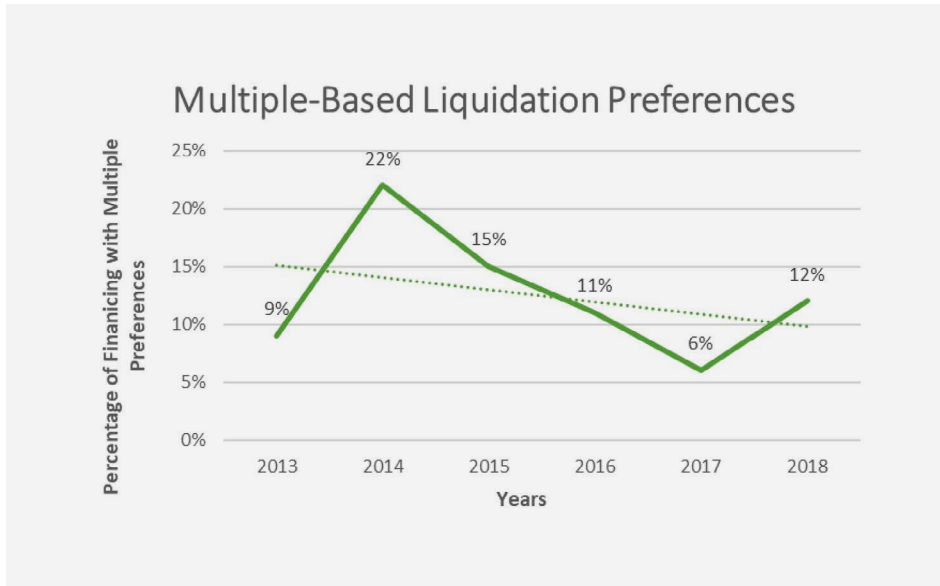
FINANCING TRANSACTIONS WITH SENIOR LIQUIDATION PREFERENCE

The percentages of financing transactions with senior liquidation preference, broken down by series, were as follows:



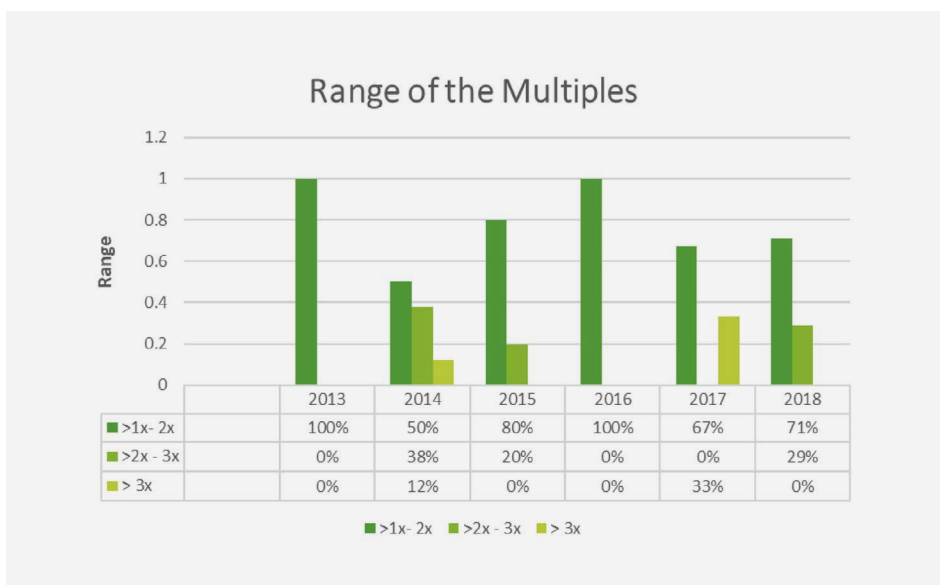
MULTIPLE-BASED LIQUIDATION PREFERENCES

The percentage of financing transactions with senior liquidation preferences that included multiple preferences was as follows:



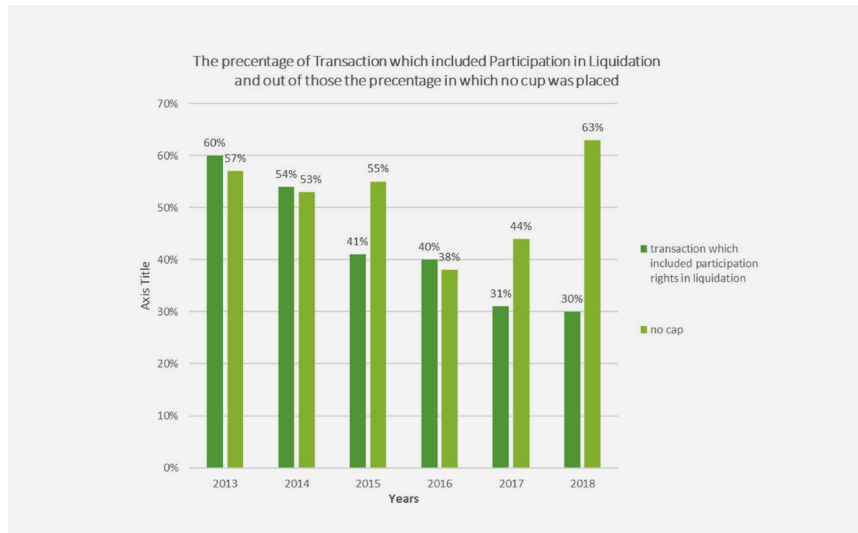
RANGE OF THE MULTIPLES

Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:



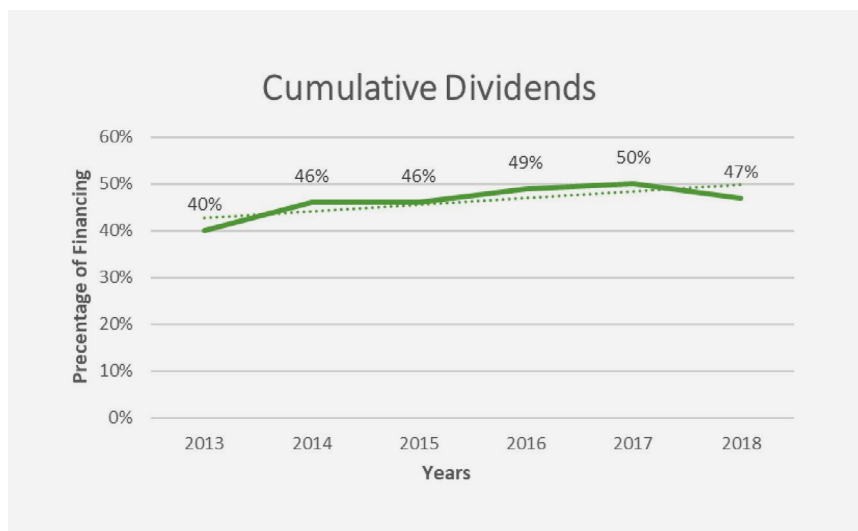
PARTICIPATION IN LIQUIDATION

The percentage of transactions, out of the total number of financing transactions, which included participation rights in liquidation and Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors' right to participation were as follows:



CUMULATIVE DIVIDENDS AND/OR ACCRUED INTEREST AS PART OF THE LIQUIDATION PREFERENCE

Cumulative dividends and/or accrued interest constituted part of the liquidation preferences in the following percentages of financings:



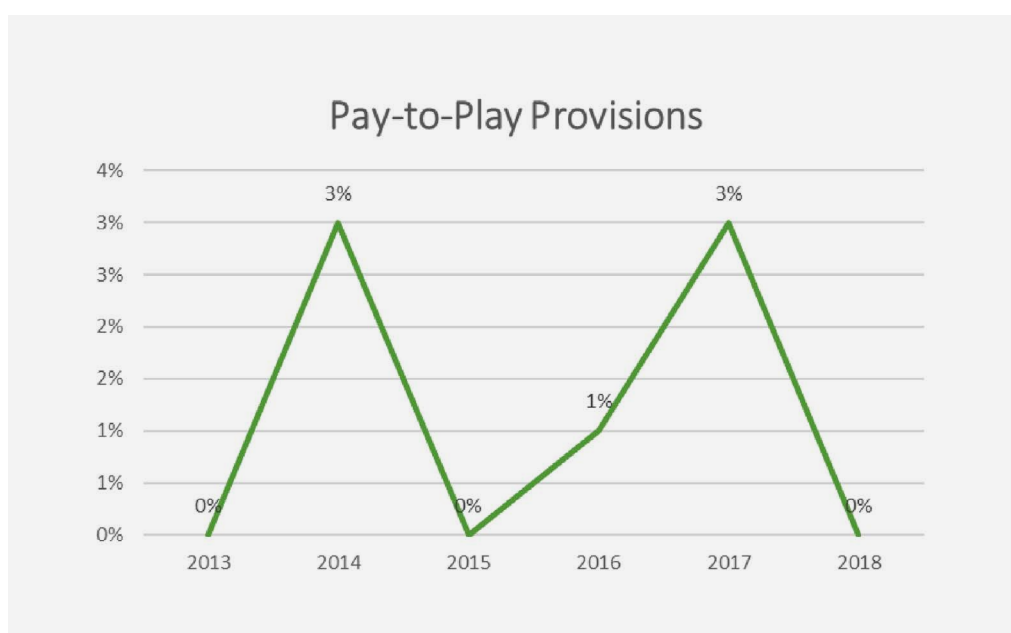
ANTI-DILUTION PROVISIONS

The use of anti-dilution provisions in the financings which took place in 2018 and in the periods covered by our previous surveys may be broken down as follows:

Type Of Provision	2013	2014	2015	2016	2017	2018
Full Ratchet	6%	8%	8%	3%	3%	2%
Weighted Average	91%	82%	88%	95%	94%	93%
None	3%	10%	4%	2%	3%	5%

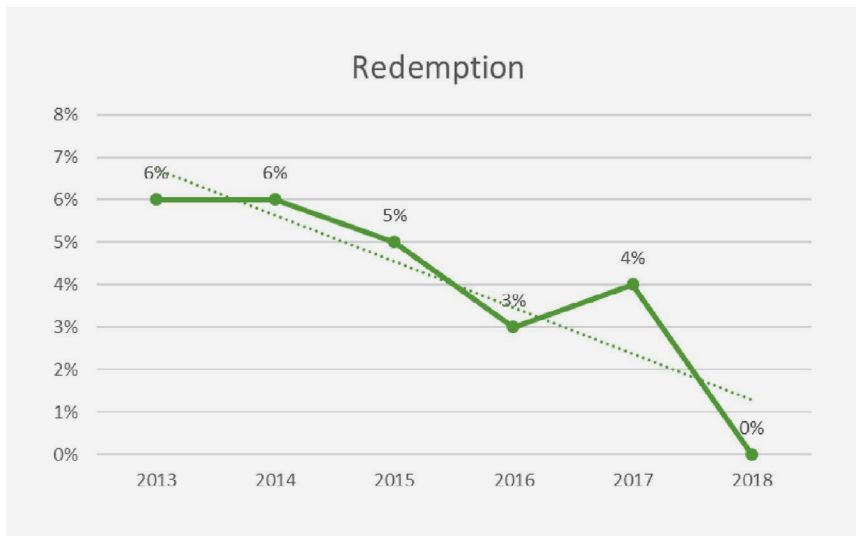
PAY-TO-PLAY PROVISIONS

The use of pay-to-play provisions in the financings which took place in 2018 and in the periods covered by our previous surveys may be broken down as follows:



REDEMPTION

The percentage of transactions in 2018 and the periods covered by our previous surveys, out of the total number of financings in each respective period, in which the terms provided for mandatory redemption or redemption at the option of the venture capitalist was as follows:



CORPORATE REORGANIZATIONS

The percentage of post-Series A financing transactions in 2018 and the periods covered by our previous surveys, out of the total number of financings in each respective period, which involved the conversion of senior securities into more junior securities was as follows:



ANALYSIS OF LEGAL TERMS OF VENTURE FINANCINGS OF ISRAELI COMPANIES AND A COMPARISON OF THOSE TERMS WITH THE TERMS OF VENTURE FINANCINGS IN THE SILICON VALLEY (2018 SURVEY)

BACKGROUND

We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during 2018, and compared those terms to the terms of venture financings for technology companies headquartered in the Silicon Valley (the San Francisco Bay Area) that reported raising money in the same period.

FINANCING ROUND

The Israeli financings may be broken down according to type of round as follows:

Series	Israel	Silicon Valley
A	30%	27%
B	27%	23%
C	15%	19%
D	15%	12%
E and higher	13%	19%

PRICE CHANGE

The financings during 2018 may be broken down by the directions of the change in price as compared to the each company's respective previous round, as follows:

Price Change	Israel	Silicon Valley
Down	8%	11%
Flat	2%	11%
Up	89%	78%

The percentages of financing transactions that were down-rounds, broken down by series, were as follows:

Series	Israel	Silicon Valley
B	3%	11%
C	6%	10%
D	6%	12%
E and higher	21%	11%

LIQUIDATION PREFERENCE

Senior liquidation preferences were used in the following percentages of post-Series A financings:

Israel	Silicon Valley
53%	24%

The percentages of financing transactions senior liquidation preference, broken down by series, were as follows:

Series	Israel	Silicon Valley
B	48%	16%
C	56%	27%
D	56%	21%
E and higher	50%	31%

MULTIPLE-BASED LIQUIDATION PREFERENCE

The percentages of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

Israel	Silicon Valley
12%	7%

Of the financings in which there were senior liquidation preferences based on multiples, the range of the multiples may be broken down as follows:

Range of Multiples	Israel	Silicon Valley
> 1x - 2x	71%	70%
> 2x - 3x	29%	30%
> 3x	0%	0%

PARTICIPATION IN LIQUIDATION

The percentage of transactions, out of the total number of financing transactions, that provided for participation rights in liquidation were as follows:

Israel	Silicon Valley
30%	11%

Out of those financing transactions the terms of which provided for participation, the percentages of those in which no cap was placed on the investors right to participation were as follows:

Israel	Silicon Valley
63%	55%

CUMULATIVE DIVIDENDS/INTEREST ACCRUAL

Cumulative dividends or interest accruals (which is an Israeli concept similar to cumulative dividends) constituted part of the liquidation preferences under the terms of the following percentages of financings

Israel	Silicon Valley
47%	5%

ANTI-DILUTION PROVISIONS

The use of anti-dilution provisions in the financings were as follows:

Type Of Provision	Israel	Silicon Valley
Full Ratchet	2%	0%
Weighted Average	93%	98%
None	5%	2%

PAY-TO-PLAY PROVISIONS

The use of pay-to-play provisions in the financings was as follows:

Israel	Silicon Valley
0%	4%

REDEMPTION

The percentages of financings providing for either mandatory redemption or redemption at the option of the venture capitalist were as follows:

Israel	Silicon Valley
0%	5%

CORPORATE REORGANIZATIONS

The percentages of post-Series A financings involving a corporate reorganization (conversion of senior securities) were as follows:

Israel	Silicon Valley
5%	6%

■ CONTACT / SIGN UP INFORMATION

For additional information about this report please contact:

Lior Aviram: l.aviram@shibolet.com

Limor Peled: l.peled@shibolet.com

At Shibolet & Co.: 972-3-7778333

Or Barry Kramer: bkramer@fenwick.com

At Fenwick & West.: 650-335-7278

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www.shibolet.com or to www.fenwick.com/vctrends.htm