STARTUP SNAPSHOT:

COVID-19 EFFECT

HEAR WHAT 400+ STARTUPS THINK ABOUT FUNDRAISING, HIRING AND OPERATIONS: PRE COVID-19 AND TODAY

LEUMITECH SAMSUNG NEXT Y.BENJAMIN HERZOG FOX & NEEMAN LAW OFFICE

May 2020

Our mission: Creating transparency in the Israeli ecosystem

A MISSED OPPORTUNITY

The startup ecosystem moves fast and breaks new grounds. Major black swan events, like the COVID-19 pandemic, force entrepreneurs to be even more flexible and adapt more quickly to the rapidly changing times.

However, even for the quickest and most innovative thinkers, navigating the future is tougher than ever. The reality is that when making crucial decisions, founders are often in the dark. They don't have the full picture of the ecosystem, missing a very significant opportunity to leverage the vast knowledge that exists in the startup nation.

VISIBILITY THROUGH DATA

We are here to change just that. Our multi-disciplinary team is on a mission to increase transparency, building the first ever data-sharing platform in the Israeli startup ecosystem.

We aim to provide a window into what is going on within the life of a technology startup as it is being experienced by the entrepreneurs themselves.

THIS REPORT

We are proud to share the first report in this initiative, based on data from 400+ startups collected before and during the outbreak of COVID-19. The data points offer a unique glimpse into how the startup ecosystem has dramatically changed and adapted to the crisis.

In this time of unprecedented volatility, data sharing and cooperation within the community is crucial. We hope that this information creates visibility and gives entrepreneurs insights for accelerating their ventures forward.

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Y.BENJAMIN

Founding Members

Leading industry players join forces to build the first data-sharing platform for the startup nation

Hanan O. Haviv
Head of Hi-Tech,
HFN Law

Hanan focuses his practice on advising emerging companies and investors, representing both public and private hi-tech and life sciences companies in many areas, including formation matters, VC financings, mergers and acquisitions, public offerings and public company representation.

Yifat Oron
CEO, LeumiTech

Yifat manages Leumitech, the technology banking arm of Leumi Group, servicing and catering to the financing needs of technology companies of all sectors and stages. She enjoys over 20 years experience working with technology companies, through her experience in venture capital, banking and consulting.

Yael Benjamin
Founder, Y. Benjamin
Strategic Marketing

Yael is the founder of a boutique advisory firm that helps innovators get from conception to market quickly. Formerly a strategic consultant and investment banker, she specializes in turning business messages into highly engaging materials that secure new investors and clients.

Eyal Miller
General Manager,
Samsung NEXT TLV

Eyal specializes in early-stage venture development, strategic initiatives and strategies for scaling startups. He was featured in Business Insider and TheMarker as one of the The Most Influential Israelis in Tech Worldwide.

About the Respondents

400+
STARTUPS

66%
RAISED $10M OR LESS

83%
<40 EMPLOYEES

61%
VC FUNDED

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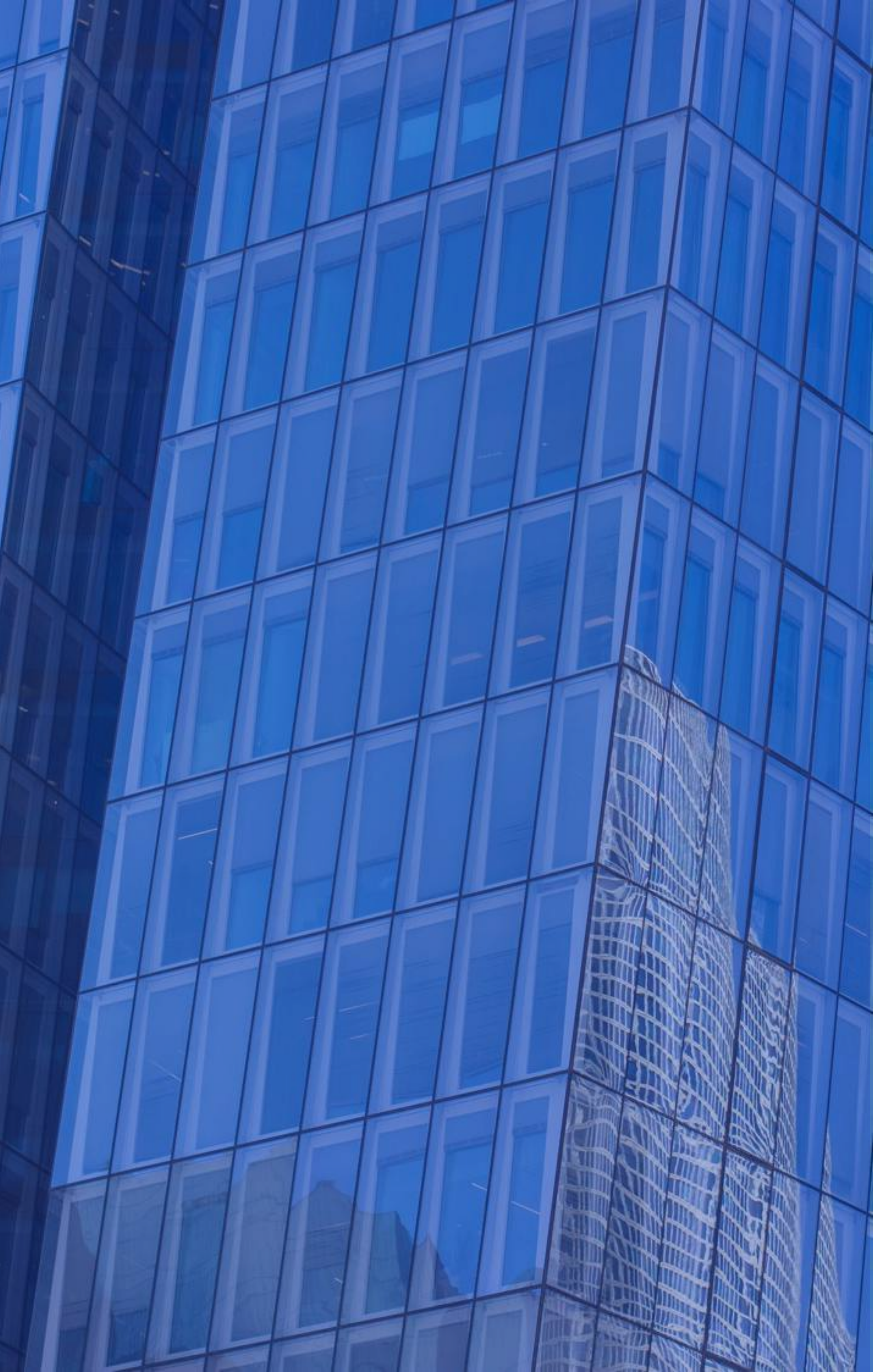
1 HIRING



Growing your team at home and abroad

Going into 2020, startups faced unique challenges in acquiring talent. The proliferation of tech ventures was outpacing the growth of local talent. The shortage of programmers, scientists and engineers was well-documented, with 18,500 jobs unfilled.

An additional challenge was building executive management teams. Startups were struggling with the question of when to bring these senior management hires on-board and how to ideally structure global management teams, with cultural and geographic hurdles adding additional difficulty to an already daunting task.

However, with the outbreak of coronavirus in early 2020, the hiring market went through a dramatic shift. Given the vast volatility and desire to optimize costs, many startups froze hiring or reduced their workforce.

During these uncertain times, startups face an increasingly daunting task. How can they continue to grow and weather the storm, while being forced to cut costs to a minimum?

We set out to check how are startups dealing with these hiring challenges, including when to make top executive hires and how COVID-19 has affected the market to date.

*SNC and Israel Innovation Authority

COVID-19 EFFECT

71%

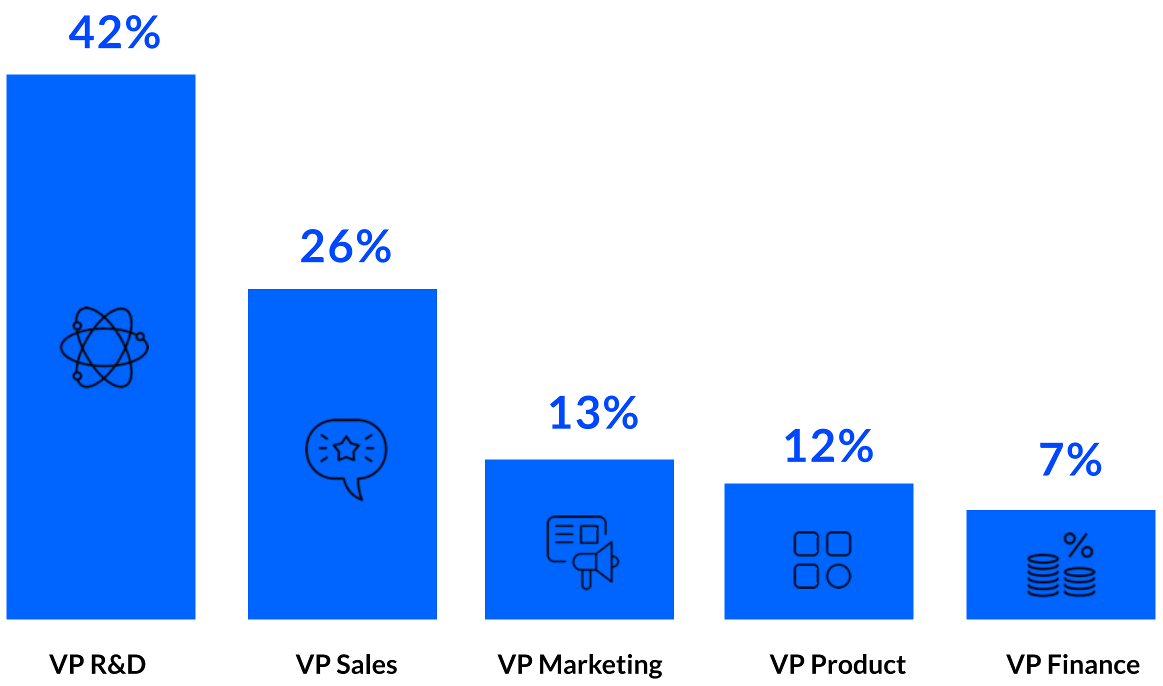
OF STARTUPS FROZE HIRING, FIRED EMPLOYEES OR SENT THEM HOME ON UNPAID LEAVE

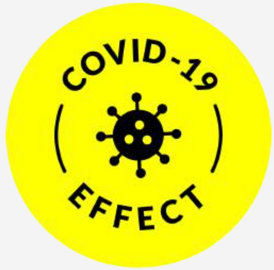
The challenges of executive hiring

VP R&D AND VP SALES ARE HARDEST HIRES

Given the dearth of highly experienced R&D personnel in Israel, it's no surprise that this executive position is the hardest to fill. VP Sales is a close second, as startups struggle to hire and manage strong candidates to lead their global sales teams.

HARDEST EXECUTIVE HIRE
(From respondents that have executive team)





86%

agree or somewhat agree that there are more qualified applicants available today compared to pre COVID-19

When to bring finance in-house?

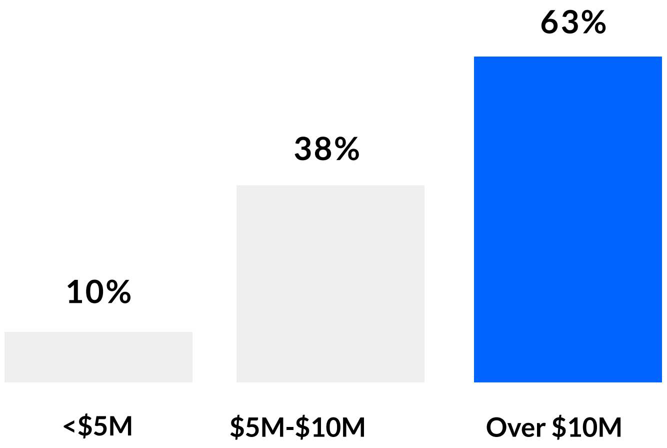
NOT JUST FOR IPOS ANYMORE

The role of a startup CFO has evolved considerably, encompassing much more than bean counting, budgeting and closing the books. Today's CFO is a visionary, taking an active role in determining company direction, securing strategic relationships and planning for growth.

In the past, the need for an in-house CFO was prompted by significant funding. Until then, companies could outsource bookkeeping or hire a CFO part-time for specific services. Not anymore. Because companies are going public at a later stage, they need CFOs way in advance of an IPO. Today's CFOs are an essential part of the company from an earlier stage, driving strategic decisions and proactively planning for the future.

BRINGING FINANCE IN-HOUSE DEPENDS ON STAGE

% OF STARTUPS WITH IN-HOUSE FINANCE PROFESSIONAL (BY FUNDS RAISED)



76% OF STARTUPS DON'T HAVE AN IN-HOUSE CFO

"

The existence of a CFO function can't be underestimated. It is not a must to have a full-time CFO at early stages, but it is highly recommended to have the position even at part time. This ensures the company grows with strong financial fundamentals, leading to significant value creation at a later stage.

- Yifat Oron, CEO Leumitech

When to hire a VP HR?

THE GROWING IMPORTANCE OF COMPANY CULTURE

Israel is evolving from start-up nation to scale-up nation, responsible for building large tech companies that require teams of highly skilled personnel. Hiring is becoming an increasingly prominent issue, as local companies must attract talent that is also courted by the 530+ multinational corporations that have opened up offices in Israel.

With the outbreak of COVID-19, startups looking to preserve cash were forced to freeze hiring or let go of existing employees. On the flip side, many international players with deep pockets were continuing recruitment, looking to snatch up qualified applicants.

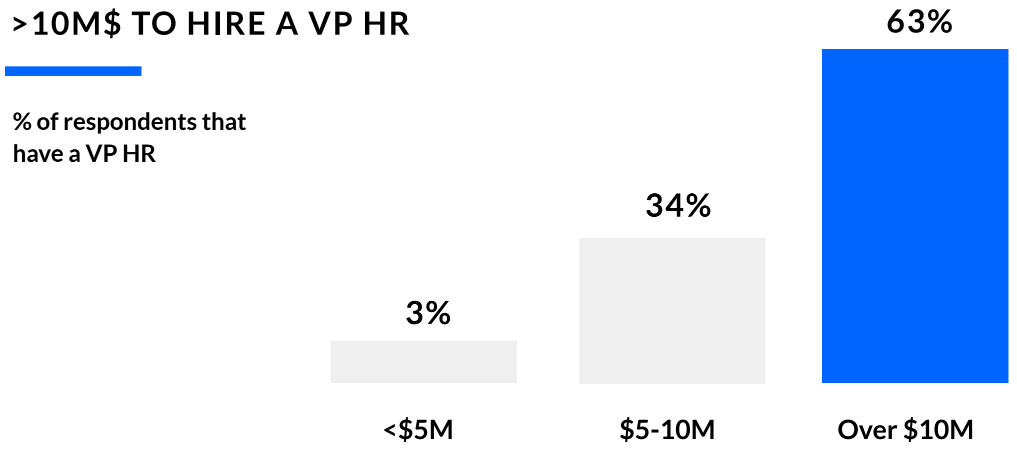
For startups to retain existing talent and return to a competitive hiring position in coming months, a strong HR manager is essential. Tactical and narrow HR roles are being replaced by strategic and holistic “People Teams” that focus on driving employee development and decreasing attrition.

> ”
>
> If you don’t start layering in HR once you’ve passed 50 people on your way to 150, something is going to go badly wrong.

- Marc Andreessen, Co-founder Andreessen Horowitz

59% OF STARTUPS THAT HAVE A VP HR HIRED ONE WHEN THEY HAD BETWEEN 11-30 EMPLOYEES

THE MAJORITY OF STARTUPS WAIT UNTIL THEY RAISE OVER >10M$ TO HIRE A VP HR



How is COVID-19 affecting the hiring market?

MANAGING TALENT IN UNCERTAIN TIMES

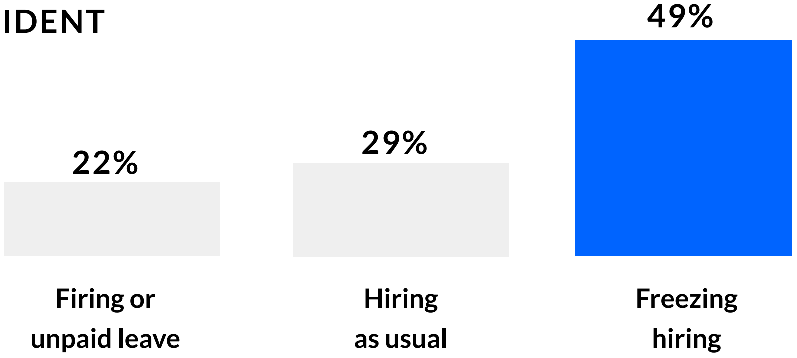
Coming into the crisis with strong demand for new employees, the local hiring market has been hit hard due to the COVID pandemic. However, true to its innovative nature, the startup ecosystem is quickly responding to market changes, working to minimize damage.

Facing a daunting task, startups must balance the need for rapid growth with the urgent task of cutting costs. As of today, many have frozen all new hiring activities, strategically recalibrating budget sheets and growth forecasts before proactively growing their teams.

A POTENTIAL OPPORTUNITY?

Despite the difficulty of dealing with the pandemic, the current situation has been taken by some startups as an opportunity to restructure their existing teams and talent.

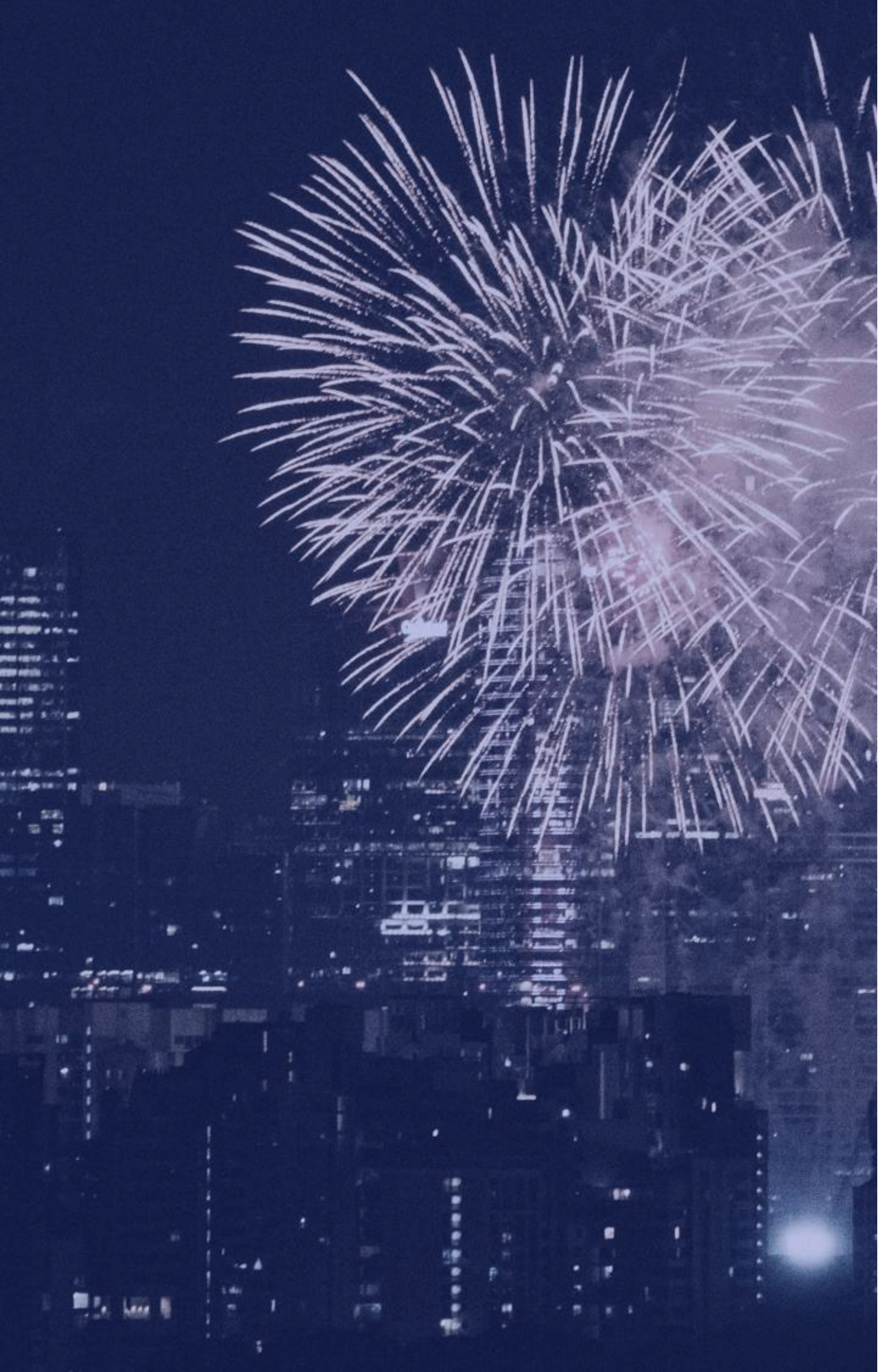
DRASTIC CHANGES IN HIRING STRATEGY ARE EVIDENT



> **Companies are adjusting to the "new normal"** and trying to understand the effects of the current crisis. One of their first moves was a hiring freeze. We expect hiring to restart once companies adjust and better understand their new hiring needs and available opportunities

- Hanan Haviv, Head of Hi-Tech HFN Law

2 EQUITY COMPENSATION



Show me the money

In today's market, equity is an important tool for attracting, retaining and rewarding top talent. One-third of employees state that equity compensation was the main reason, or one of the main reasons, that they accepted their current job.

The benefits are not limited just to the employees, as equity offers new ventures with limited funds the valuable opportunity to hire experienced staff at lower salaries. But benefits go far beyond cost savings, as there is an enormous advantage to having staff with a stake in the venture's success. Employees who own equity are more dedicated, working on average 8 hours more per week than those who don't.

To see industry benchmarks, we took a look at who gets what in Israel and how that has changed as a result of the COVID-19 pandemic.

*Charles-Schwab Employee Equity Survey, The Hub

"

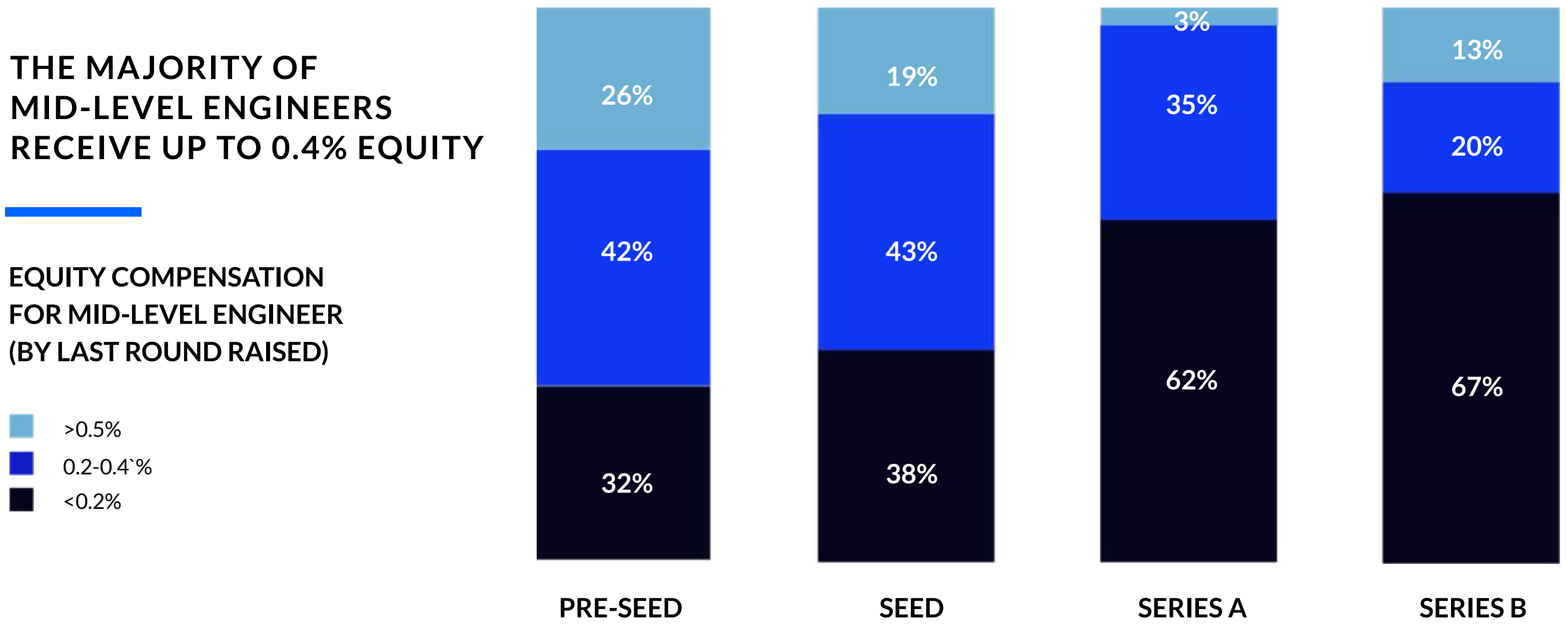
During and following the COVID-19 pandemic, while companies will be seeking to reduce costs in order to preserve cash, ESOP should be used to compensate employees for reduction in salaries, as well as creating a higher sense of participation in the startup, which could prove critical in preserving key talent.

– Jonathan Machado,
Investment Director Samsung Next

Equity for engineers: Compensating tech talent

THE MAJORITY OF MID-LEVEL ENGINEERS RECEIVE UP TO 0.4% EQUITY

EQUITY COMPENSATION FOR MID-LEVEL ENGINEER (BY LAST ROUND RAISED)



How do we compare?

In the US, you'd have to give a post-series A lead engineer 0.5–1% equity – higher than our local talent.

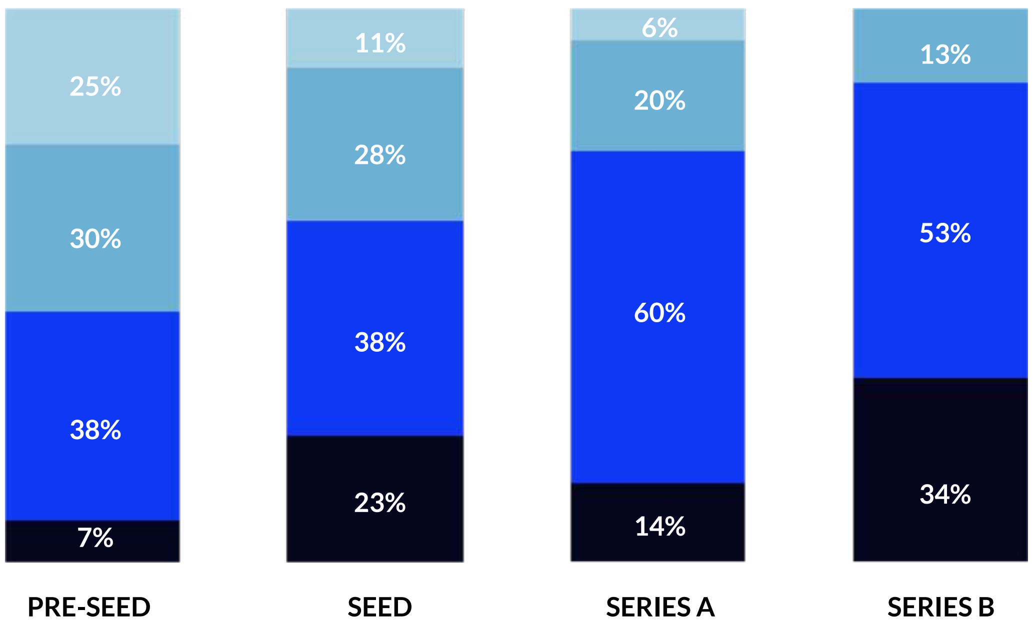
Source: The Holloway Guide to Equity Compensation

Equity for the executive team: Receiving less than expected

OVER HALF OF MANAGEMENT RECEIVES BETWEEN 0.5-2% EQUITY

EQUITY COMPENSATION FOR NEW MANAGEMENT MEMBER
(BY LAST ROUND RAISED)

>2%
1-2%
0.5-1%
<0.5%



How do we compare?

Andreessen Horowitz data reveals that Silicon Valley startup execs get approximately the equivalent percentage of equity for Series A as their Israeli counterparts.

How is COVID-19 affecting equity compensation?

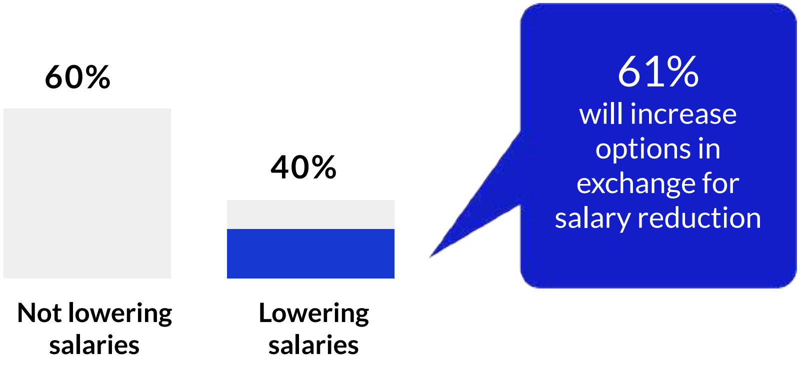
LEVERAGING ESOP TO RETAIN EMPLOYEES

During these volatile times, ESOP can be used as a powerful tool to retain key employees. Some startups are considering offering employees additional equity in return for a cut in salary. Others are working to make the sale of equity more accessible to employees, repricing to ensure employees gain a significant sum or extending the exercise period.

However, it remains to be seen whether market dynamics will impact the desired risk level of employees and their openness to receiving equity. Will they prefer to secure higher cash compensation offered by the larger tech companies? Only time will tell.

FOUNDERS ARE ADJUSTING COMPENSATION PACKAGES: LOWERING SALARIES AND INCREASING OPTIONS

% of respondents that lowered (or planning to lower) employee salaries



SOME FOUNDERS ARE ADJUSTING OPTION PLANS FOR EXISTING EMPLOYEES

% of respondents that would consider adjusting following elements

14%

Re-price
the exercise price

9%

Extend exercise period
following employment termination

3

THE SECONDARY MARKET-

SELLING YOUR SHARES

The rise of the secondary market

Recent deals have shown a clear trend: Startups are raising more money and taking longer to go public.

An increase in time-to-exit is evident, with founders looking to build mature companies instead of chasing a quick exit. According to Startup Nation Central, companies founded in or after 2004 and acquired in 2014 took 53 months on average to get there, while companies founded in or after 2008 and acquired in 2018 took 63 months- a 19% increase in time-to-exit.

The result of this protracted process is that founders, employees and investors are in limbo. They may be wealthy on paper, but this wealth can't be realized until a liquidity event.

This new reality is giving rise to the secondary market, enabling shareholders to realize the fruits of their labor well before a liquidity event.

However, with the outbreak of COVID-19 and the slowdown in the funding market, it is not yet clear how the new reality will affect the secondary market.

We explored the questions: What's happening in the market? Who is selling their equity and when? What is the COVID-19 effect?

"

Due to COVID-19, we can expect a growing demand for liquidity by founders, employees and early stage investors. This demand will lead to an increase in secondary deals. The majority of deals will initially involve solid and high performing companies, those less affected by the crisis, as well as funds with a greater need for liquidity.

– Eyal Miller

General Manager Samsung Next TLV

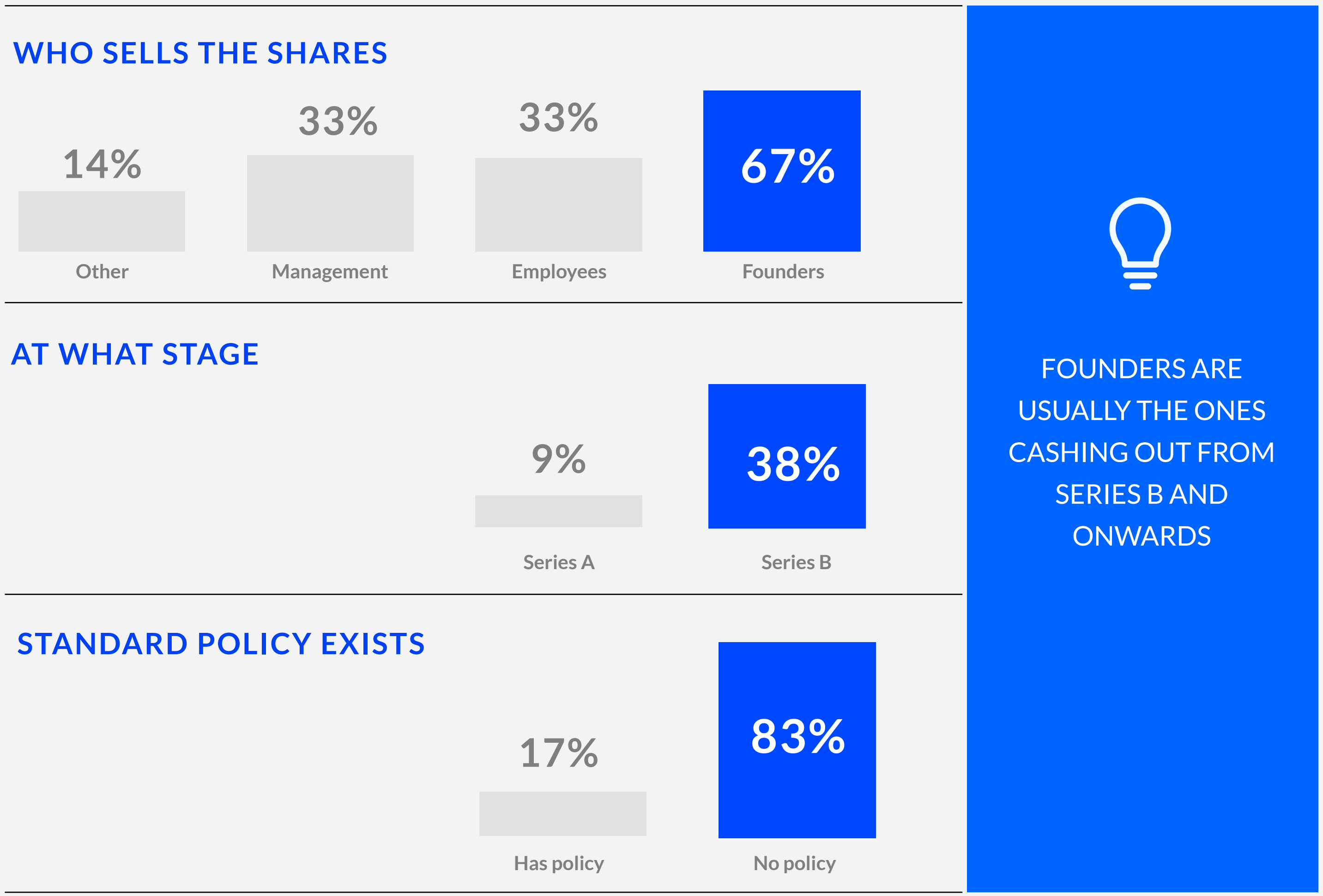
The secondary market is gaining popularity, but is not yet standardized

Due to the growth of late stage funding, secondary transactions are becoming more common. This usually takes place alongside a funding round, usually from Round B onwards, when demand exceeds supply.

Originally, these transactions only happened between funds, and then founders came into the picture. Now, investors don't bat an eye when founders sell shares. Slowly, we are seeing that employees are starting to get in and cash out, but the market is still in its early stages. There is a long way to go until this phenomenon becomes widespread.

Today, there is no uniform policy for interim liquidity. Sales are completed on an ad-hoc basis, usually depending on a liquidity event. Each company decides who can sell their equity and when, with employees often facing many restrictions.

SECONDARY MARKET SNAPSHOT



The secondary gap: Employees still aren’t cashing out

Employees give blood, sweat and tears to new ventures, taking part in the risk but often facing limitations when looking to cash in on their reward:

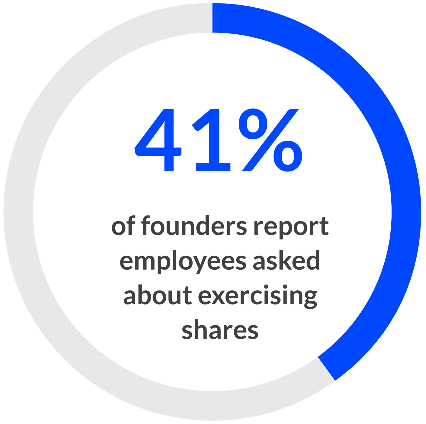
- **Lack of control about execution date:** For each round, management decides on a case-by-case basis if an employee can participate, or whether the round will be limited to management alone.
- **Limited visibility:** There is a lack of visibility about what shares are actually worth. To get clarity about what and when they can sell, employees need to ask management what they can expect, and even then there is no definitive black and white answer or transparency.
- **No bargaining power:** In the secondary market, the power is in the hands of the buyers, with employees unable to negotiate or shop around and compare.

2x

MORE FOUNDERS PARTICIPATED IN SECONDARY TRANSACTIONS THAN EMPLOYEES

GROWING PRESSURE BY EMPLOYEES FOR VISIBILITY

In today’s changing times, employees are trying to understand the monetary potential of stock options. More and more employees are seeking information on and comparing the values of their stock options package



WITHOUT LIQUIDITY, IS THE EFFICACY OF OPTIONS DECLINING?

Options’ illiquidity make them a powerful retention tool: employees have an incentive to stay for the long haul. However, as time to exit is increasing and company valuations are rising, employees can’t see the cash at the end of the tunnel and are preferring to receive a higher salary here and now over the potential option upside. In order to stay competitive with large multinationals setting up shop in Israel, employees must find a way to cash in and stay on board.

What do investors think?

INVESTORS ARE BEGINNING TO ACCEPT THE NEW REALITY

With the changing market dynamics, there is less of a stigma associated with secondary sales, as investors begin to understand that it is a truly necessary step in building large-scale Israeli organizations.

Investors understand that equity sales will happen and prefer to set expectations with founders ahead of time. Today, we even see that many investors add certain points about exercising shares to term sheets, often from Round A and up.

"

We see investors accepting that secondary transactions are a good and healthy process, especially for companies that are a couple of years in the game. It helps grow bigger companies and retain top talent.

– Yael Benjamin
Founder Y.Benjamin Strategic Marketing

"

For the good of the company, investors must embrace the rise of the secondary market – not only for founders but also for employees. With the longer time to exit, the effectiveness of option packages is decreasing and secondary is an important retention tool, enabling the startup to recruit top employees without high spend in salary.

– Hanan Haviv,
Head of Hi-Tech
HFN Law

How is COVID-19 affecting secondary transactions?

LIQUIDITY IN UNCERTAIN MARKET DYNAMICS

Will the growth in secondary sales that was evident in the market over the past year become a relatively rare phenomenon? Some say that as funding in the market slows down, investors will prefer to invest directly into companies, as opposed to buying secondary shares. On the other hand, others predict that the increased pressure for liquidity will drive growth in secondary transactions. Only time will tell.

* Does not relate to secondary transaction of LP positions

THE IMPACT ON INVESTOR INTEREST IS STILL UNKNOWN

Change in investor interest as a result of the situation

4%	9%	14%	73%
+ More interest	− Less interest	= Same interest	? Not sure

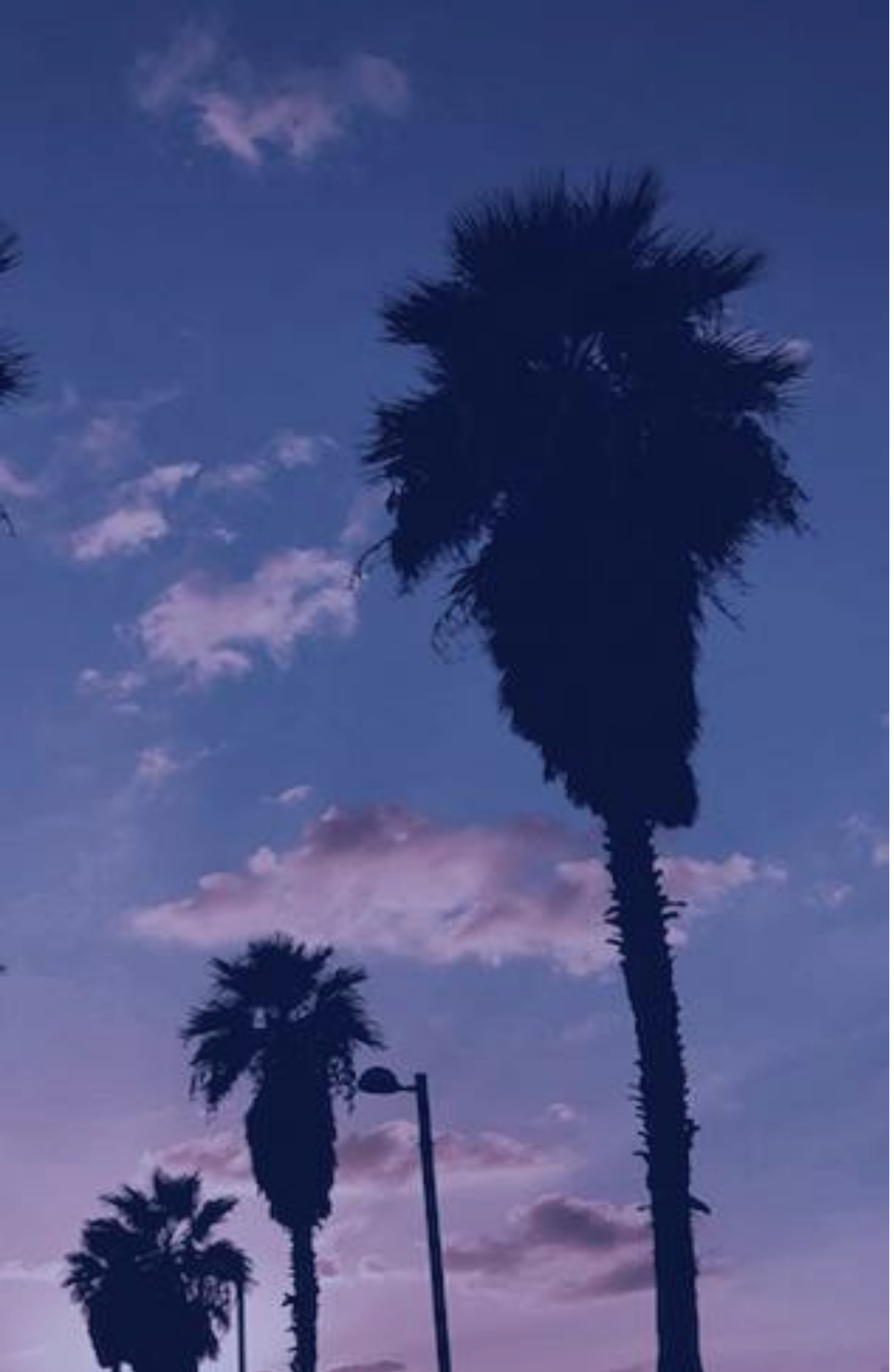
89% NOT CONSIDERING A SECONDARY TRANSACTION IN THE NEXT 4 MONTHS

”

In an uncertain investment climate, we are seeing two contradictory trends: increased pressure for liquidity by shareholders with investors exercising greater caution.

Alon Lederman
Partner HFN Law

4 FUNDRAISING



Big deals are still a big deal in 2020

Despite the massive effect of Coronavirus on the global economy, the Israeli tech ecosystem closed the first quarter of 2020 with strong results. $2.74B was raised in Q1, a record amount of funding and 76% higher than total funds raised in the first quarter of 2019.

One recurring pattern is clear: Large and late stage rounds are growing while early stage capital is shrinking. $1.92B was invested in later stage rounds (C rounds and later), a record amount of capital, resulting from the mega-rounds raised by Via ($400M) and Insightec ($150M). This is contrasted with the clear decline in number of early stage rounds (Seed and A), which decreased by 17% compared to the quarterly avg. of 2019.

The effects of the pandemic on venture financing is still unknown. However, it is clear that the Israeli tech ecosystem is entering the storm in strong shape.

*IVC-ZAG Israel Tech Funding Report

> ” (Following the crisis) the alternative to the technology industry has taken a turn for the worse, while the opportunities in technology are growing by leaps and bounds.

– Eugene Kandel

CEO Start-Up Nation Central

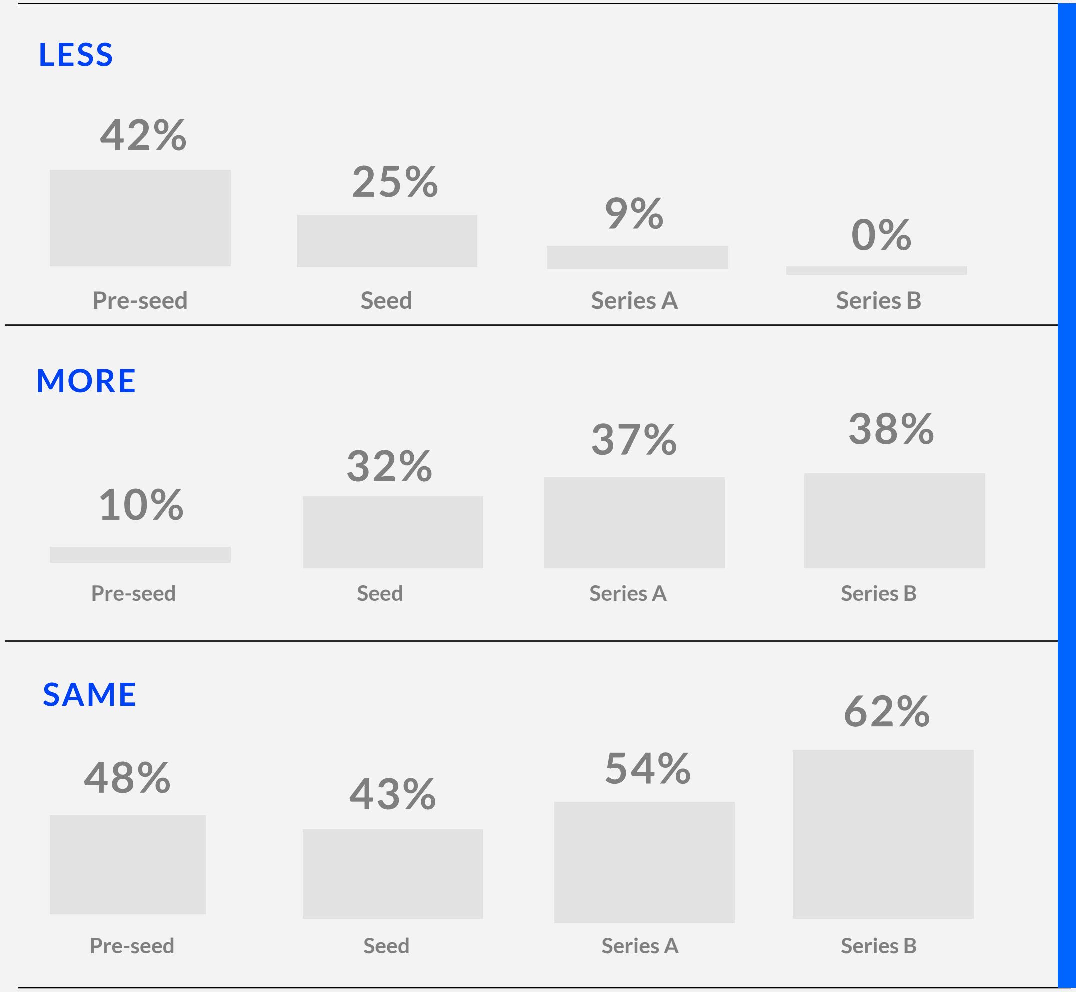
Fundraising expectations vs. reality

In 2019 and early 2020, the Israeli startup ecosystem grew and capital was flowing freely. The majority of companies were closing rounds that were in line or higher than expectations.

However, early stage founders' unfulfilled goals were evident, with 42% of pre-seed companies raising less than expected. Were founders plagued by unrealistic expectations, fueled by stories of the growing size of early stage rounds? Or maybe changing market dynamics were at play, with more funding going towards later stage companies and a decline in capital invested in early stage companies?

In later stage rounds, mainly Series B, founders were closing rounds that are significantly in line or higher than expectations. The nature of later stage rounds enables more accurate financial planning, leading 62% of founders to answer that amount raised was in line with the ask.

DID YOU RAISE MORE OR LESS THAN EXPECTED?



64%

expect to meet fundraising expectations in current market

To bridge or not to bridge? It all depends why & when

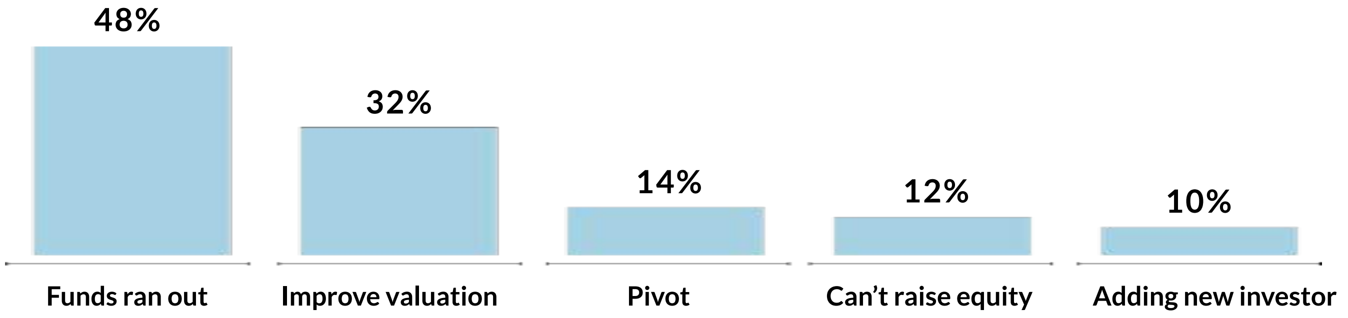
Bridge funding can be a great way to buy a company a little of bit of breathing room or for getting new investors on board. While a bridge can be a red flag for some investors, if founders can demonstrate why they need the bridge and how they plan to use the funds, it can be perceived as a one-time vehicle necessary for company growth.

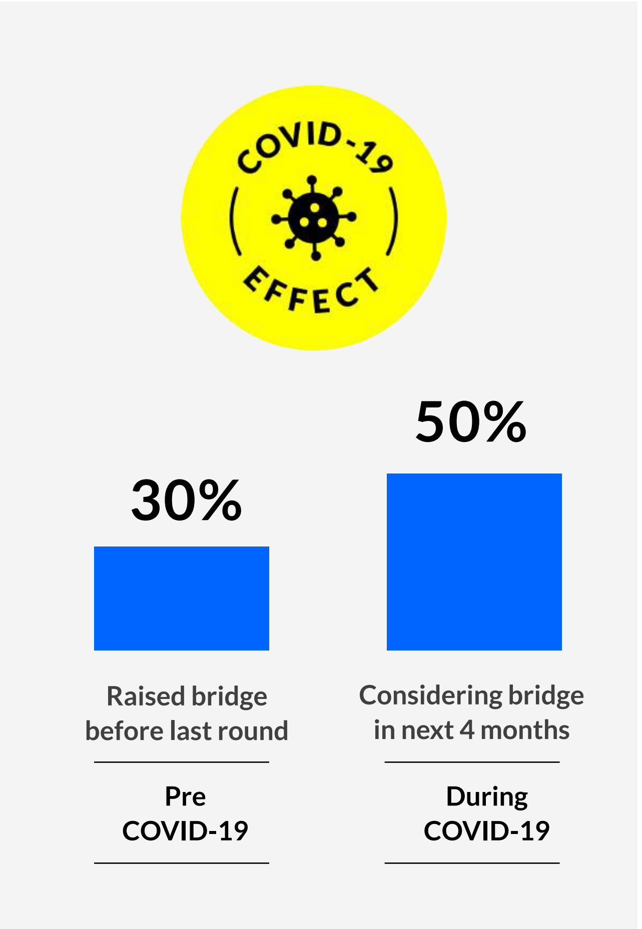
In today's uncertain market dynamics resulting from the COVID-19 pandemic, it seems as though entrepreneurs are increasingly considering bridge funding as a viable option to help them weather the storm.

65%

REPORT BRIDGE DID NOT HURT ODDS OF RAISING FOLLOW-ON FUNDING

TOP REASONS FOR RAISING A BRIDGE





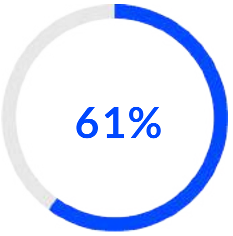
Raising your initial round: Choose the right instrument

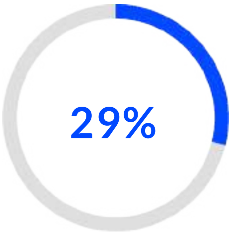
EQUITY VS. CONVERTIBLE NOTE

Much ink has been spilled in the convertible versus equity debate, with each having their pros and cons for startups and investors. Fundraising via convertible note has become increasingly popular among startups today, allowing them to delay concrete valuation and secure funding through a fast and cheap process.

On the other hand, with the growing size of early stage rounds, equity has the option to bring in far more cash than a convertible loan. Companies can scale to full potential without having to worry about raising another round. Furthermore, equity also solidifies a partnership with an investor that has a long-term, vested interest.

TYPE OF CAPITAL RAISED IN FIRST ROUND
(% of respondents)

Equity


Convertible Note


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Traditionally, I tend to suggest to founders to finalize equity, even though it may come with a small "price" on valuation. However, using convertible schemes has proven quicker in terms of time to money and the ability to continue to focus on advancing the company's technology and business. Especially true in volatile periods like COVID-19, when investors may be interested in a company but are indecisive around the valuation, using a convertible will increase the likelihood of getting an investment.

– Yifat Oron,
CEO Leumitech

Preparing for fundraising: Give yourself plenty of cushion

PLAN OUT YOUR CASH RUNWAY

Especially in uncertain times like today, it is crucial to strategically plan and be well prepared for the fundraising process. As a founder, you need to make sure you've got enough funding to carry you through to the next round in about 18-24 months. But how long should you plan for the fundraising process to take? "Be prepared for the process to take longer than you expect. Give yourself plenty of cushion when assessing your cash runway," recommends Steve McDermid of Andreessen Horowitz.

HOW LONG DOES FUNDRAISING TAKE?

68%

Of startups closed their last round in

Under 6 Months

32%

Of startups closed their last round in

Over 6 Months

"

Try to think ahead and define a number of different possible funding scenarios. Create a contingency plan for each scenario, challenging your basic business assumptions and goals. Even though planning is virtually impossible in times of vast uncertainty, analyzing the potential outcomes ahead of time will enable you to act quickly and knowledgeably when the time comes.

– Yael Benjamin

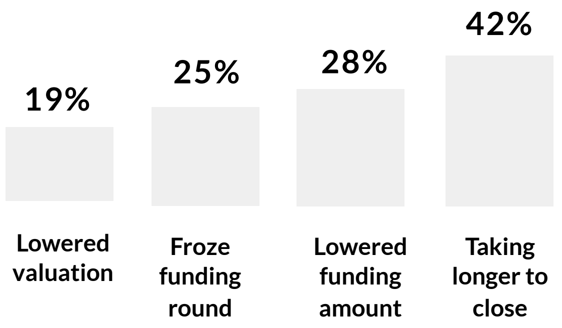
Founder Y.Benjamin Strategic Marketing

How is COVID-19 affecting fundraising?

1.

IT IS GETTING MORE DIFFICULT TO SECURE FUNDING

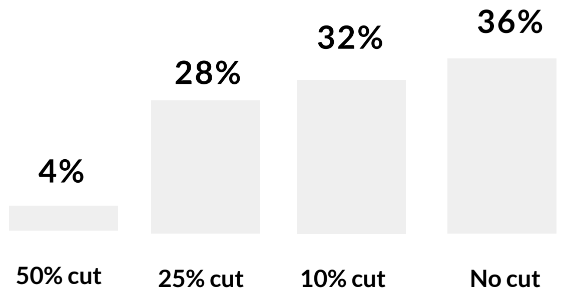
EFFECT OF COVID-19 ON CURRENT FUNDING ROUND



2.

SOME FOUNDERS ARE WILLING TO TAKE A VALUATION CUT, BUT NOT A BIG ONE

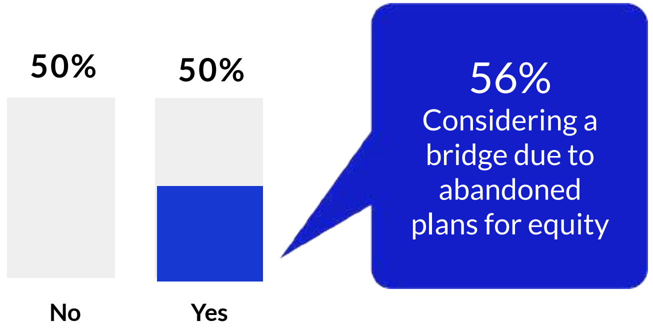
ACCEPTABLE VALUATION CUT (EXCLUDING FOUNDERS THAT DON'T NEED FUNDS NOW)



3.

FOUNDERS ARE CONSIDERING BRIDGE FUNDING AS AN EQUITY ALTERNATIVE

CONSIDERING BRIDGE WITHIN NEXT 4 MONTHS



Methodology

The Y.Benjamin Methodology

Y. Benjamin Strategic Marketing works with innovators on fundraising, strategy and marketing to help them commercialize ideas, fast. Startups, VCs and corporates turn to us for compelling business content that sparks conversation. For the survey, we employed an agile approach, leveraging our wide network to collect, analyze and visualize key insights that can be shared with the entire community.

01
SURVEY DESIGN

We worked together with leading VCs to identify today's burning issues and formulate survey questions

02
DATA COLLECTION

We partnered with 30+ leading accelerators and funds who distributed the survey to their portfolio companies

03
ANALYSIS

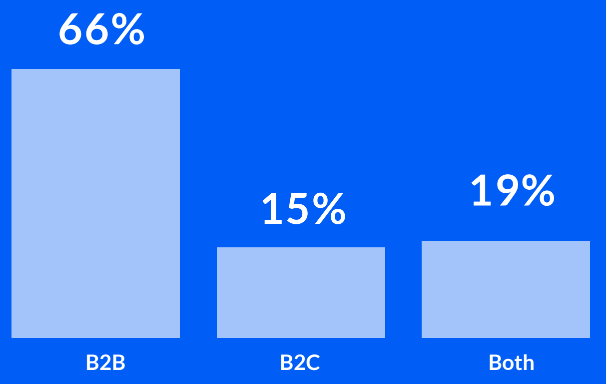
We analyzed the data that was collected using the online survey platform Segmanta

04
INSIGHTS

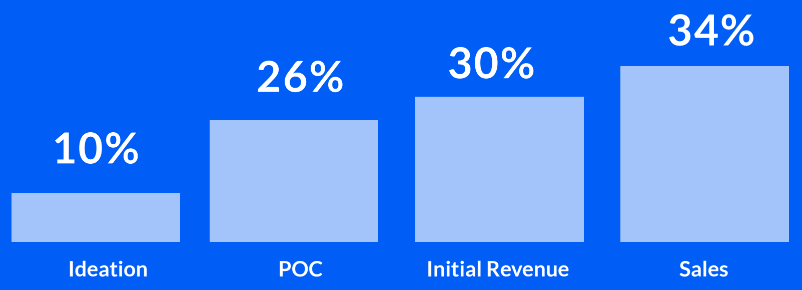
We worked closely with our partners to generate insights on key topics and industry trends

Demographics

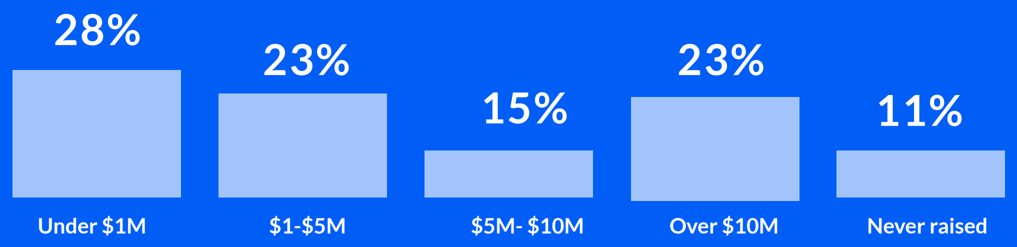
COMPANY TYPE



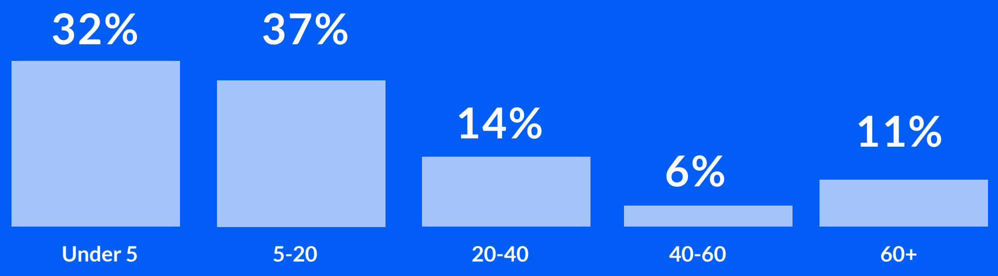
COMPANY STAGE



FUNDS RAISED



NUMBER OF EMPLOYEES



THANK YOU!

IF YOU WANT TO TAKE PART IN OUR FUTURE EFFORTS TO INCREASE ECOSYSTEM TRANSPARENCY, CONTACT US AT INFO@YBENJAMIN.COM