

Dear Clients and Friends,

Re: **Survey on Legal Terms of Venture Capital Transactions – For the First Half of 2018**

We are pleased to present the results of our survey for the first half of the year 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:

The growth in the volume of investments in high-tech in the first half of 2018, reported in other surveys, was bolstered by indicia of positive trends with respect to legal terms applied during this period, that were observed in our survey.

For the first time since 2014, the rate of financing in later rounds resumed significance, accounting for 25% of the rounds surveyed, alongside a third of the rounds surveyed which were early rounds. This indicates to us that the industry, for the first time since 2014, continues to support mature companies alongside investing in new ventures. This is a healthy result, by all accounts, for an industry that on one hand went through periods of pursuits for the quick exit and difficulty in raising funds for mature companies and on the other hand, went through times during which funding largely went to existing companies and less to new ventures.

Additionally, for the first time, the use of the senior liquidation preference dropped to 59%, the lowest rate we have observed since we began our survey in 2008. In contrast to Silicon Valley, where the rate is only 23%, this is still a high rate, but compared with the rates observed in previous years that reached 83% and for a majority of the time hovered around 75%, this reflects a significant decline in the use of the senior liquidation preference, demonstrating an increasing growth of investor confidence.

As for the “cultural” differences that exist between Israel and Silicon Valley, it is interesting to note that in Silicon Valley, the rate of use of “participation rights” continued to decline, reaching only 10% in the first half of 2018! In Israel, there was a significant drop in the rate of use of this right in 2017, but the decline appears to have halted in the first half of 2018. With that said, as far as Israel is concerned – the rate of its use is three times that of Silicon Valley where according to our survey, the rate in Israel hovers around 31%.

It is further interesting to note that the use of full ratchet anti-dilution protection appears to have vanished from Silicon Valley, where according to our survey the rate of its use in Silicon Valley for the past several years has been 0%. In Israel, the full ratchet anti-dilution protection is still being applied, albeit at a very low rate of 3-4%, but it has yet to completely disappear, and perhaps the time for that has arrived.



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 or Adv. Limor Peled at L.Peled@shibolet.com, Tel: +972 (3) 7778333.

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in cooperation with
FENWICK & WEST LLP

Trends in Legal Terms in Venture Financings
in Israel
(H1 2018 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during the first half of the year of 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 the first half of the year of 2018 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
A	33%	35%	33%	44%	35%	37%	39%	18%	20%	16%	30%
B	25%	30%	31%	28%	23%	30%	31%	25%	28%	24%	30%
C	19%	20%	22%	12%	15%	13%	12%	27%	30%	14%	16%
D	15%	4%	8%	11%	13%	7%	13%	20%	10%	16%	12%
E and higher	10%	11%	6%	5%	14%	13%	5%	10%	12%	30%	12%

- **Price Change** – The financings closed in the first half of the year of 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:

Price Change	H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
Down	12%	11%	7%	8%	23%	15%	16%	25%	39%	30%	32%
Flat	6%	8%	3%	8%	9%	5%	11%	9%	7%	17%	14%
Up	82%	81%	90%	84%	68%	80%	73%	66%	54%	53%	54%

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

Series	H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
B	8%	10%	0%	4%	28%	5%	14%	24%	24%	0%	23%
C	10%	5%	10%	9%	17%	11%	25%	12%	27%	60%	29%
D	13%	25%	0%	20%	0%	20%	11%	35%	71%	50%	20%
E and higher	20%	18%	33%	0%	36%	33%	0%	30%	67%	36%	60%

- **Liquidation Preference** – Senior liquidation preferences were used in the following percentages of financings:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
59%	73%	67%	63%	73%	75%	76%	77%	69%	81%	83%

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

Series	H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
B	54%	68%	69%	62%	56%	57%	45%	72%	48%	78%	69%
C	60%	80%	60%	55%	83%	88%	22.5%	73%	82%	100%	86%
D	63%	75%	57%	80%	60%	80%	22.5%	85%	71%	67%	100%
E and higher	40%	64%	83%	60%	100%	100%	10%	80%	89%	82%	100%

- Multiple-Based Liquidation Preferences** - The percentage of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
12%	6%	11%	15%	22%	9%	3%	16%	8%	32%	10%

- 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	H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
>1x- 2x	75%	67%	100%	80%	50%	100%	100%	70%	100%	75%	100%
>2x - 3x	25%	0%		20%	38%	0%	0%	20%	0%	13%	0%
> 3x	0%	33%		0%	12%	0%	0%	10%	0%	12%	0%

- Participation in Liquidation** - The percentage of transactions, out of the total number of financing transactions, which included participation rights in liquidation were as follows:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
31%	31%	40%	41%	54%	60%	69%	77%	72%	84%	88%

- 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:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
44%	44%	38%	55%	53%	57%	59%	59%	62%	61%	58%

- 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:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
42%	50%	49%	46%	46%	40%	48%	48%	45%	38%	58%

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

Type of Provision	H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
Full Ratchet	4%	3%	3%	8%	8%	6%	4%	9%	14%	11%	12%
Weighted Average	94%	94%	95%	88%	82%	91%	84%	85%	81%	89%	88%
None	2%	3%	2%	4%	10%	3%	12%	6%	5%	0%	0%

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

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
0%	3%	1%	0%	3%	0%	1%	2%	4%	14%	7%

- **Redemption** – The percentage of transactions in the first half of the year of 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:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
0%	4%	3%	5%	6%	6%	16%	18%	11%	19%	12%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in the first half of the year of 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:

H1'2018	2017	2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
6%	3%	1%	3%	0%	1%	0%	1%	3%	3%	13%

For additional information about this report please contact Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at Shibolet & Co., 972-3-7778333; or Barry Kramer at 650-335-7278; bkramer@fenwick.com at Fenwick & West. To be placed on an email list for future editions of this survey please go to www.shibolet.com or to www.fenwick.com/vctrends.htm.

FENWICK & WEST LLP
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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
(H12018 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during the first half of the year of 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 A – 33% (compared to 24% in the Silicon Valley)
 - Series B – 25% (compared to 25% in the Silicon Valley)
 - Series C – 19% (compared to 20% in the Silicon Valley)
 - Series D – 15% (compared to 13% in the Silicon Valley)
 - Series E and higher – 10% (compared to 17% in the Silicon Valley)
- **Price Change** – The financings during the first half of the year of 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	12%	13%
Flat	6%	10%
Up	82%	77%

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

Series	Israel	Silicon Valley
B	8%	14%
C	10%	11%
D	13%	15%
E and higher	20%	15%

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

Israel	Silicon Valley
59%	23%

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

Series	Israel	Silicon Valley
B	54%	16%
C	60%	27%
D	63%	25%
E and higher	40%	27%

- **Multiple-Based Liquidation Preference** – The percentages of financing transactions with senior liquidation preferences that included multiple preferences was as follows:

Israel	Silicon Valley
12%	9%

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	75%	71%
>2x - 3x	25%	29%
>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
31%	10%

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
44%	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
42%	5%

- **Anti-dilution Provisions** – The use of anti-dilution provisions in the financings were as follows:

Type of Provision	Israel	Silicon Valley
Full Ratchet	4%	0%
Weighted Average	94%	99%
None	2%	1%

- **Pay-to-Play Provisions** – The use of pay-to-play provisions in the financings was as follows:

Israel	Silicon Valley
0%	5%

- **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%	4%

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

Israel	Silicon Valley
6%	6%

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com; or Lior Aviram – l.aviram@shibolet.com or Limor Peled – l.peled@shibolet.com, at Shibolet & Co. 972-3-7778333. To be placed on an email list for future editions of this survey please go to www.fenwick.com/vctrends.htm or to www.shibolet.com.