



Dear Clients and Friends,

Re: **Survey on Legal Terms of Venture Capital Transactions – For the First Half of Year 2015**

We are pleased to present the results of our survey for the first half of the year of 2015, 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 coordination 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:

With the onset of the New Year - we present outstanding results of the year that had just ended: what appears to be the 'Year of Exits' of 2014 which continued into the first half of 2015 - is also clearly seen in the terms of the investment rounds in the venture capital industry that were surveyed.

The rate of up-rounds in the first half of 2015 reached 83%! The highest rate that we have surveyed since the 2008 financial crisis.

Also, the rate of down-rounds dropped to a mere 10%, the lowest rate that we have surveyed since the 2008 financial crisis.

Such rates were observed by us in the past, only in the second half of 2007, slightly prior to the advent of the financial crisis of 2008.

Not surprisingly – almost identical rates were noticed in the survey of Silicon Valley, where the rate of up-rounds reached 83% and the number of down-rounds dropped to 9%.

On the legal side, valuation protections continued to ebb and thus continued the slow decline, since 2012, of the use of participation rights of preferred shares, as it dropped to the lowest rate ever surveyed by us – 43% (compared to rates above 80% through 2009 and rates of around 70% through 2012). Alongside this decline, a decrease was also observed in the number of rounds in which a cap was not placed on the participation rights of preferred shares in distributions – 48%, which is the lowest rate that has heretofore been surveyed by us.

The declining use of participation rights on the one hand and increasing prevalence of placing caps on the participation right when it is used, on the other hand, may serve as an indication that the industry is less apprehensive of giving high valuations, but can also be explained by the adjustments to the conditions prevailing in Silicon Valley: there the right is significantly less used throughout all the years of the survey and in the first half of 2015 it is found in only one-fifth of the rounds surveyed.

Another interesting finding, which we have already seen in several previous surveys, but this time was strengthened even more, is the slight increase in the rate of Series A-Rounds (an increase from 35% to 39%) which is in contrast to the finding in Silicon Valley, where the rate actually dropped to 21%, i.e. almost half! Upon analyzing subsequent rounds, one sees that the most significant difference between Silicon Valley and Israel is the number of later rounds (E and higher), which is almost non-existent in Israel, and constitutes 17% in Silicon Valley. This finding may be due to the fact that in Silicon Valley there is a longer "food chain", due to the existence of a many more late stage funds, and



perhaps, the low figures of Series A rounds in Silicon Valley indicate the beginning of a cessation of new investments? We will continue to follow this finding.

All these findings indicate a significant euphoria of funding for start-ups, the source of which probably originated with the Year of the Exits of 2014 and the first half of 2015, with the expectation to date being that 2015 will be crowned as the year with the highest record of exits. This celebration can of course be arrested if capital markets continue the negative trends that have been recently observed, only time will tell.

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 - 2015 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during H1 2015. 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 H1 2015 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
A	39%	35%	37%	39%	18%	20%	16%	30%	36%
B	31%	23%	30%	31%	25%	28%	24%	30%	27%
C	12%	15%	13%	12%	27%	30%	14%	16%	20%
D	12%	13%	7%	13%	20%	10%	16%	12%	12%
E and higher	6%	14%	13%	5%	10%	12%	30%	12%	5%

- **Price Change** – The financings closed in H1 2015 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	H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
Down	10%	23%	15%	16%	25%	39%	30%	32%	18%
Flat	7%	9%	5%	11%	9%	7%	17%	14%	0%
Up	83%	68%	80%	73%	66%	54%	53%	54%	82%

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

Series	H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
B	7%	28%	5%	14%	24%	24%	0%	23%	7%
C	0%	17%	11%	25%	12%	27%	60%	29%	0%
D	33%	0%	20%	11%	35%	71%	50%	20%	57%
E and higher	0%	36%	33%	0%	30%	67%	36%	60%	33%

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

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
73%	73%	75%	76%	77%	69%	81%	83%	75%

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

Series	H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
B	67%	56%	57%	45%	72%	48%	78%	69%	73%
C	83%	83%	88%	22.5%	73%	82%	100%	86%	73%
D	83%	60%	80%	22.5%	85%	71%	67%	100%	71%
E and higher	67%	100%	100%	10%	80%	89%	82%	100%	100%

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

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
23%	22%	9%	3%	16%	8%	32%	10%	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	H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
>1x- 2x	60%	50%	100%	100%	70%	100%	75%	100%	100%
>2x - 3x	40%	38%	0%	0%	20%	0%	13%	0%	0%
> 3x	0%	12%	0%	0%	10%	0%	12%	0%	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:

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
43%	54%	60%	69%	77%	72%	84%	88%	86%

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:

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
48%	53%	57%	59%	59%	62%	61%	58%	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:

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
49%	46%	40%	48%	48%	45%	38%	58%	64%

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in H1 - 2015 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
Full Ratchet	12%	8%	6%	4%	9%	14%	11%	12%	9%
Weighted Average	84%	82%	91%	84%	85%	81%	89%	88%	91%
None	4%	10%	3%	12%	6%	5%	0%	0%	0%

- **Pay-to-Play Provisions** - The use of pay-to-play provisions in the financings which took place in H1 2015 and in the periods covered by our previous surveys may be broken down as follows:

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
0%	3%	0%	1%	2%	4%	14%	7%	2%

- **Redemption** – The percentage of transactions in H1 2015 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:

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
6%	6%	6%	16%	18%	11%	19%	12%	11%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in H1 2015 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:

H1'15	2014	2013	2012	2011	2010	2009	H2'08	H1'08
2%	0%	1%	0%	1%	3%	3%	13%	2%

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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
(H1 - 2015 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during H1 2015, 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 – 39% (compared to 21% in the Silicon Valley)
 - Series B – 31% (compared to 28% in the Silicon Valley)
 - Series C – 12% (compared to 19% in the Silicon Valley)
 - Series D – 12% (compared to 15% in the Silicon Valley)
 - Series E and higher – 6% (compared to 17% in the Silicon Valley)
- **Price Change** – The financings during H1 2015 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	10%	9%
Flat	7%	8%
Up	83%	83%

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

Series	Israel	Silicon Valley
B	7%	7%
C	0%	11%
D	33%	8%
E and higher	0%	9%

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

Israel	Silicon Valley
73%	29%

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

Series	Israel	Silicon Valley
B	67%	16%
C	83%	30%
D	83%	43%
E and higher	67%	38%

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

Israel	Silicon Valley
23%	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	60%	43%
>2x - 3x	40%	43%
>3x	0%	14%

- **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
43%	20%

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
48%	59%

- **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
49%	7%

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	12%	1%
Weighted Average	84%	97%
None	4%	2%

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

Israel	Silicon Valley
0%	3%

- **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
6%	11%

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

Israel	Silicon Valley
2%	5%

For additional information about this report please contact Barry Kramer at 650-335-7278; bkramer@fenwick.com or Michael Patrick at 650-335-7273; mpatrick@fenwick.com at Fenwick & West; 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.