



Dear Clients and Friends,

Re: **Survey on Legal Terms of Venture Capital Transactions – For the First Half of Year 2016**

We are pleased to present the results of our survey for the first half of the year of 2016, 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:

The present survey has a conflicting message:

On one hand – Here in Israel, the number of up-rounds continues to remain high and in the first half climbed to a rate of 90% from the rounds surveyed. This is the highest rate we've reviewed thus far!

Practically all of the down rounds here were mature companies under fifth or later financing round, which further reinforces the "celebration" of up rounds.

On the other hand – two indicators may be pointed to which may be a sign of the onset of change:

The first, **the rate of up rounds in Silicon Valley continues to gradually decline** and the rate of down rounds continues its gradual ascent, this trend has been continuous for the last three quarters!

The second, an observation of the Israeli figures shows **the steepest decline in the rate of Series A rounds in Israel** from the rounds surveyed by us. Their rate fell for the first time since 2011 to 29%, compared with rates that were around 40% in previous years and 44% in 2015!

From past experience we learned that this phenomenon of the decline in new investments demonstrates a change in the mood of the industry and can therefore be regarded as the beginning of a change of the mindset that was prevalent in the last four years.

In this context the conditions in Silicon Valley are similar, where there is a creeping decline in the number of companies being financed in the early stages. In the corresponding period of our survey, the rate of first rounds is only 21%.

From past experience, the industry in Israel tends to respond with a delay of several quarters to the trends of increasing or decreasing company valuations in Silicon Valley. It will no doubt be interesting to see what is in store for the coming period.

With respect to terms it's interesting to note two things:

Similar to Silicon Valley, here also the use of a full ratchet anti-dilution price adjustment mechanism is disappearing. In Silicon Valley it has been at 0% since 2015, but even here it has fallen to only 2%!



Additionally, the usage rate of caps on participation rights in distributions to preferred shareholders sharply increased and according to the results of this survey only 26% of rounds surveyed didn't apply a cap (i.e. 74% of the Company's surveyed applied a cap). This is in comparison to 55% in 2015 and rates of around 60% in the past. In Silicon Valley, although rates of around 60% remained the same, the rates of usage of participation rights in distribution to preferred shareholders is comparably lower than what is customary here and stands at 18% there, compared to 40% over here.

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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**Trends in Legal Terms in Venture Financings
in Israel**

(H1 2016 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 (Q1, Q2) of the year 2016. 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 2016 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

Series	H1 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
A	29%	44%	35%	37%	39%	18%	20%	16%	30%
B	40%	28%	23%	30%	31%	25%	28%	24%	30%
C	17%	12%	15%	13%	12%	27%	30%	14%	16%
D	8%	11%	13%	7%	13%	20%	10%	16%	12%
E and higher	6%	5%	14%	13%	5%	10%	12%	30%	12%

- **Price Change** – The financings closed in H1 2016 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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
Down	7%	8%	23%	15%	16%	25%	39%	30%	32%
Flat	3%	8%	9%	5%	11%	9%	7%	17%	14%
Up	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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
B	0%	4%	28%	5%	14%	24%	24%	0%	23%
C	0%	9%	17%	11%	25%	12%	27%	60%	29%
D	0%	20%	0%	20%	11%	35%	71%	50%	20%
E and higher	67%	0%	36%	33%	0%	30%	67%	36%	60%

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

H1 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
70%	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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
B	63%	62%	56%	57%	45%	72%	48%	78%	69%
C	63%	55%	83%	88%	22.5%	73%	82%	100%	86%
D	75%	80%	60%	80%	22.5%	85%	71%	67%	100%
E and higher	100%	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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
4%	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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
>1x- 2x	100%	80%	50%	100%	100%	70%	100%	75%	100%
>2x - 3x		20%	38%	0%	0%	20%	0%	13%	0%
> 3x		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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
26%	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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
54%	46%	46%	40%	48%	48%	45%	38%	58%

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in H1 2016 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	H1 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
Full Ratchet	2%	8%	8%	6%	4%	9%	14%	11%	12%
Weighted Average	98%	88%	82%	91%	84%	85%	81%	89%	88%
None	0%	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 H1 2016 and in the periods covered by our previous surveys may be broken down as follows:

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

- **Redemption** – The percentage of transactions in H1 2016 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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
2%	5%	6%	6%	16%	18%	11%	19%	12%

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in H1 2016 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 2016	2015	2014	2013	2012	2011	2010	2009	H2'2008
2%	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.

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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 2016 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during the first half (Q1,Q2) of 2016, 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 – 29% (compared to 21% in the Silicon Valley)
 - Series B – 40% (compared to 25% in the Silicon Valley)
 - Series C – 17% (compared to 26% in the Silicon Valley)
 - Series D – 8% (compared to 10% in the Silicon Valley)
 - Series E and higher – 6% (compared to 17% in the Silicon Valley)
- **Price Change** – The financings during H1 2016 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	7%	12%
Flat	3%	12%
Up	90%	76%

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

Series	Israel	Silicon Valley
B	0%	6%
C	0%	11%
D	0%	11%
E and higher	67%	22%

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

Israel	Silicon Valley
70%	28%

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

Series	Israel	Silicon Valley
B	63%	19%
C	63%	21%
D	75%	44%
E and higher	100%	42%

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

Israel	Silicon Valley
4%	11%

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	100%	88%
>2x - 3x	0%	13%
>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
40%	18%

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
26%	58%

- **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
54%	7%

- **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	98%	99%
None	0%	1%

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

Israel	Silicon Valley
2%	8%

- **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
2%	9%

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

Israel	Silicon Valley
2%	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.