



S H I B C L E T
L A W F I R M

TRENDS IN LEGAL
TERMS IN VENTURE
FINANCINGS IN
ISRAEL AND VS.
SILICON VALLEY

H1 2022 SURVEY

We are pleased to present our survey results for the first half of 2022, which analyzes legal terms of venture capital (VC) investments in Israeli and "Israeli-related" hi-tech companies and compares 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 present an interesting comparison, using the same tools and terminology, between the terms commonly practiced in Israel and those commonly practiced in Silicon Valley.

CONCLUSIONS

The most interesting conclusion, the "surprise" in the survey, is that at least in the first half of 2022- the global financial crises did not (yet) result in any significant change in many of the legal terms used in VC investment. Specifically:

1. We observed an increase in the rate of early-stage investments (A Rounds) that occurred, on account of the rate of investments in companies at more advanced stages (C+ rounds) – of the rounds surveyed in the first half of 2022, 30% were A rounds, compared to 23% in 2021, and 26% in 2020, whereas only 16% of the rounds surveyed were C rounds compared to 25% in 2021 and 20% in 2020.
2. In comparison to 2021, where we witnessed a record rate of up-rounds – 96%(!) In the first half of 2022, we observed a decline in the rate of up-rounds - 90% and an increase in the number of rounds of down-rounds - 9%; as expected - most of the down-rounds were C+ rounds.
3. We observed a continuing decline in the rate of the usage of the senior liquidation preference to the lowest rate we have surveyed to date - only 31%!

4. We observed a continuing decline in the rate of the usage of "participation rights" of preferred shares to the lowest rate we have surveyed thus far - only 5%!
5. Alongside the decline in the use of participation rights, a decline was also observed in the rate of the usage of caps on participation rights, so that only 57% of the few companies that did apply participation rights did not place any caps on the right, in comparison to 2021 where we observed a usage rate of 75%.

The above results may be explained in several ways:

Financing rounds generally take about two to three months from start to finish – a significant part of the terms of the financing rounds that closed during the first half of 2022 were already agreed upon by the end of 2021 or at the very beginning of 2022, prior to the onset of the decrease in the markets.

Additionally, many of the companies in more advanced stages (round C+) raised significant funding in 2021, a year in which money was particularly available for investments in advanced stages, and as a result, such companies were either less in need of funding during the first half of 2022 or were not yet ready to compromise on valuation; while, of those companies that did require funding in 2022, some incurred a decrease in valuation.

There was available money in the market for investments, and such funds were being directed more towards early-stage companies that require less funding.

As of the first half of 2022 - investors did not use the market turmoil as a justification to tighten the terms of the preferred shares. In this sense, the Israeli Hi-tech industry continued to align itself to Silicon Valley - where the rates of the usage of protective terms that were observed were even lower - a rate of only 16% in use of senior liquidation preferences and a rate of only 2% only in the use of the "participation rights" of preferred shares.

It is important to note that in light of the intensification of the currently ongoing market crises and adverse macro conditions as well as past experience in how the venture capital industry responded to like market conditions+, it is dubious as to whether the trends observed in the first half of 2022 will also be observed in the upcoming survey for the second half of 2022 and whether in fact, the legal terms for venture capital investments will undergo an "adjustment" in light of the unique times that we are in.

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 Silicon Valley, please go to www.fenwick.com/vctrends.htm.

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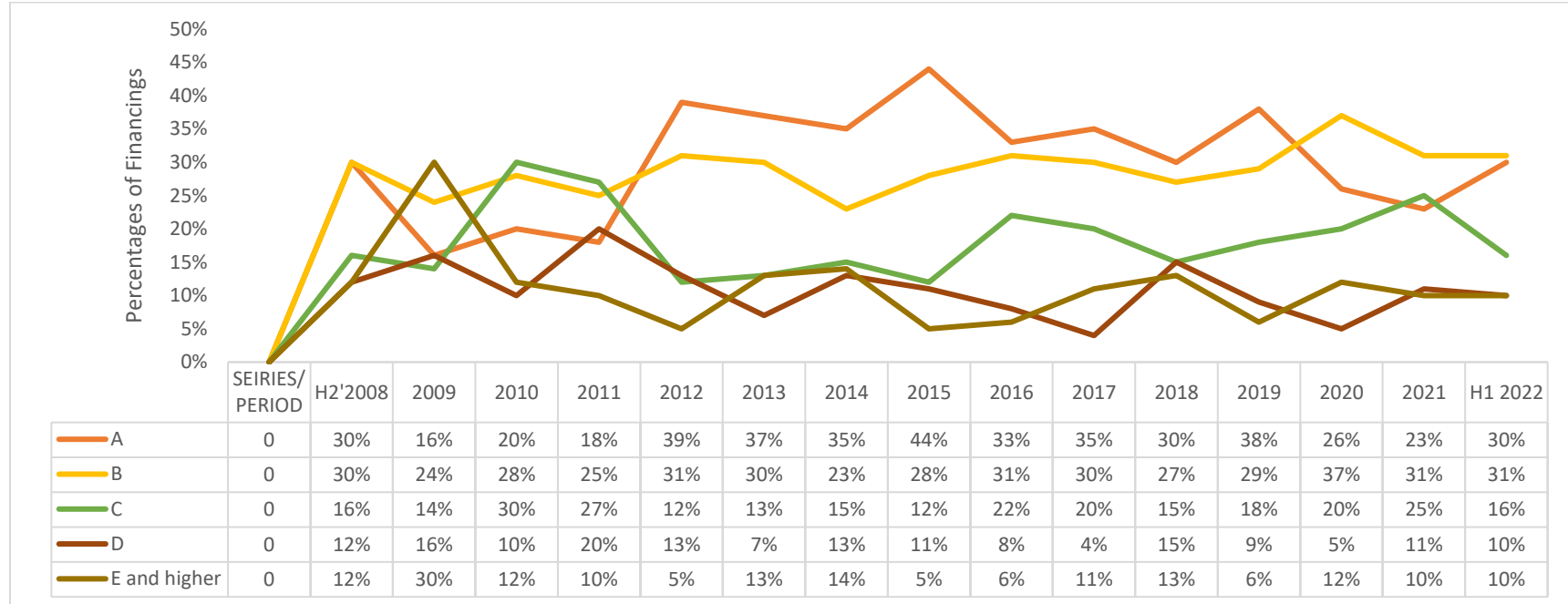
TRENDS IN LEGAL TERMS IN VENTURE FINANCINGS IN ISRAEL H1 2022 SURVEY

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 2022. 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.

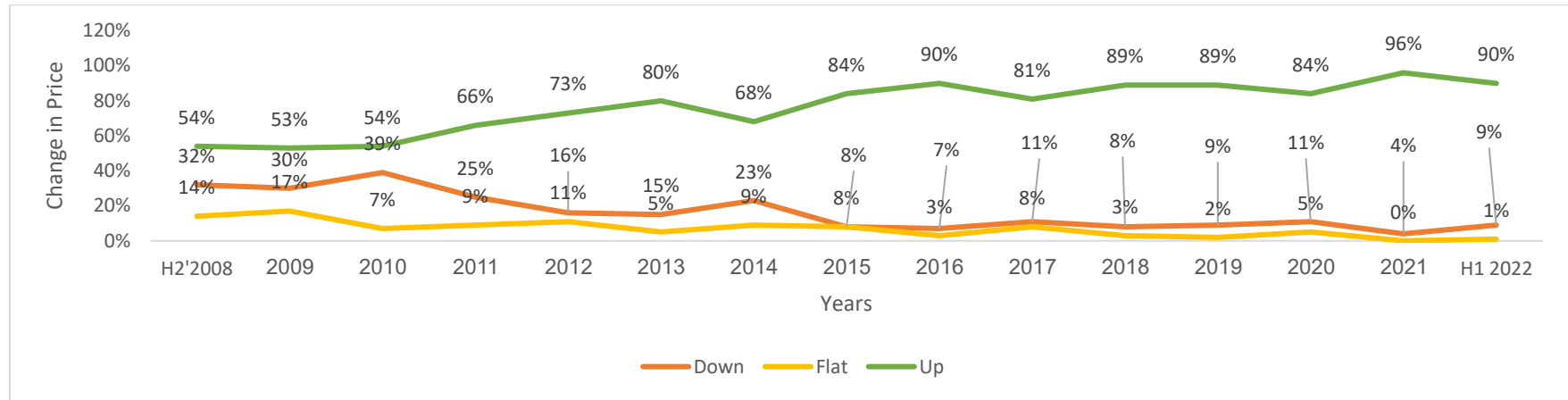
FINANCING ROUND

The financings closed in the first half of the year 2022, and the periods covered by our previous surveys may be broken down by types of rounds or series, as follows:



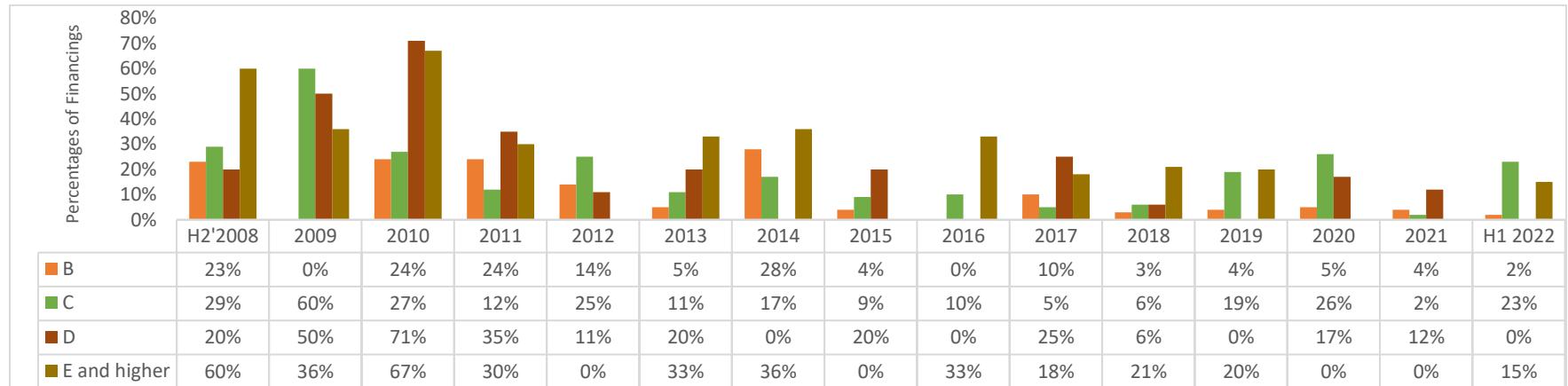
PRICE CHANGE

The financings closed in the first half of the year 2022, and 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:



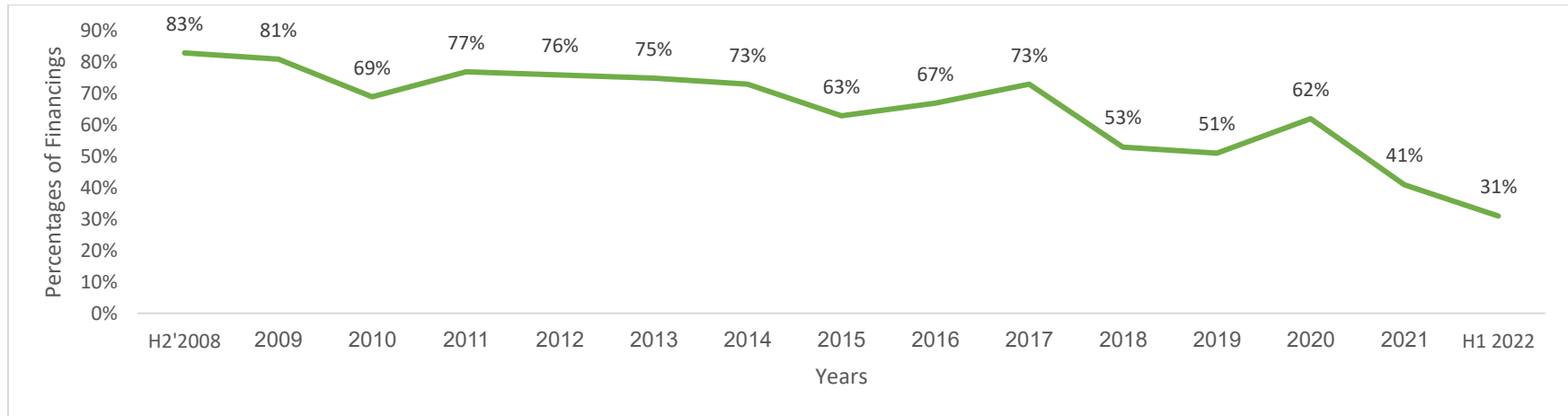
FINANCING TRANSACTIONS

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

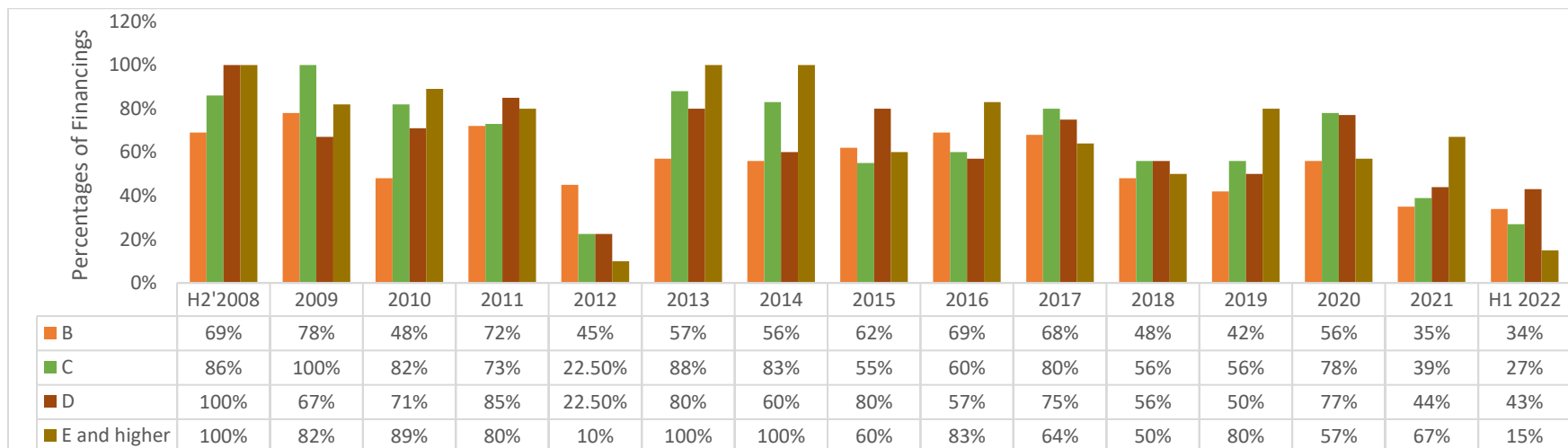


LIQUIDATION PREFERENCE

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

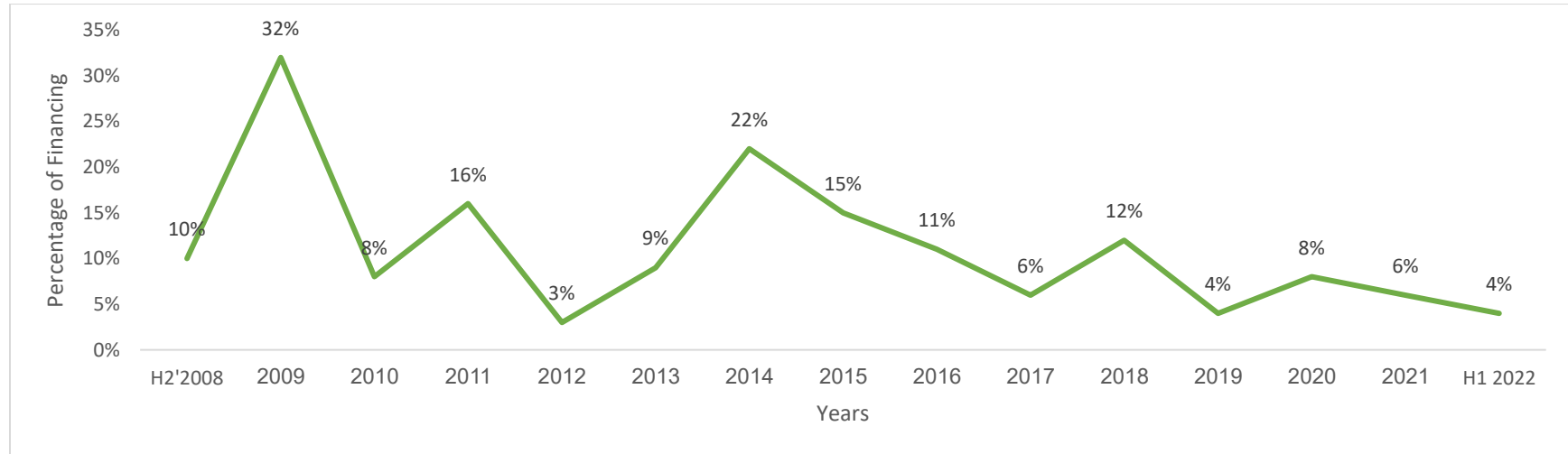


The percentages of financing transactions with a senior liquidation preference, broken down by series, were as follows:



MULTIPLE-BASED LIQUIDATION PREFERENCES

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



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	H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	H12022
1 < x < 2 - x	100%	75%	100%	70%	100%	100%	50%	80%	100%	67%	71%	0	75%	100%	50%
2 < x < 3 - x	0%	13%	0%	20%	0%	0%	38%	20%	0%	0%	29%	100%	25%	0%	25%
3 < x	0%	12%	0%	10%	0%	0%	12%	0%	0%	33%	0%	0	0%	0%	25%

PARTICIPATION IN LIQUIDATION

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

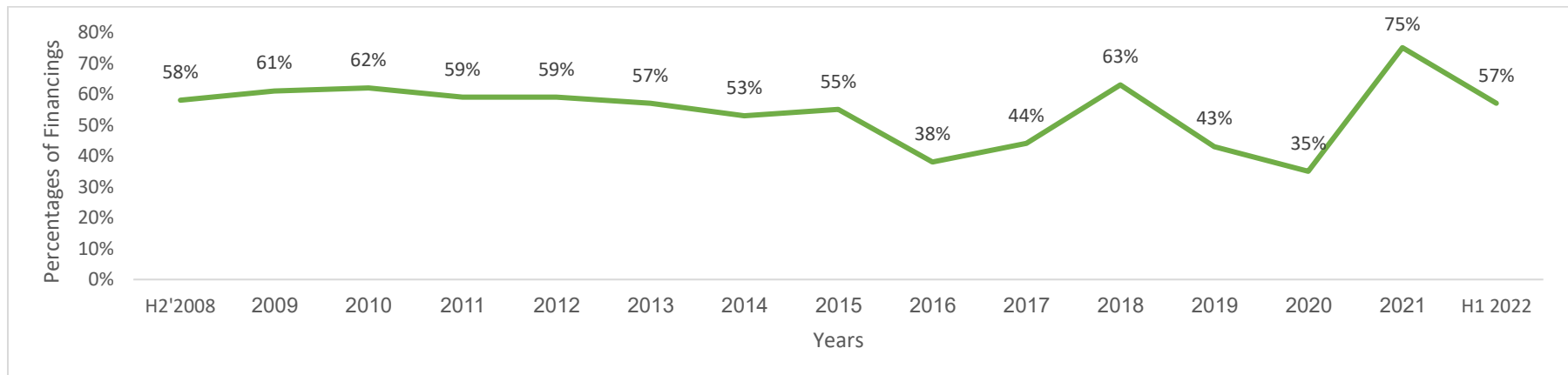
H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	H1 2022
88%	84%	72%	77%	69%	60%	54%	41%	40%	31%	30%	16%	17%	7%	5%

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:

H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	H1 2022
58%	61%	62%	59%	59%	57%	53%	55%	38%	44%	63%	43%	35%	75%	57%

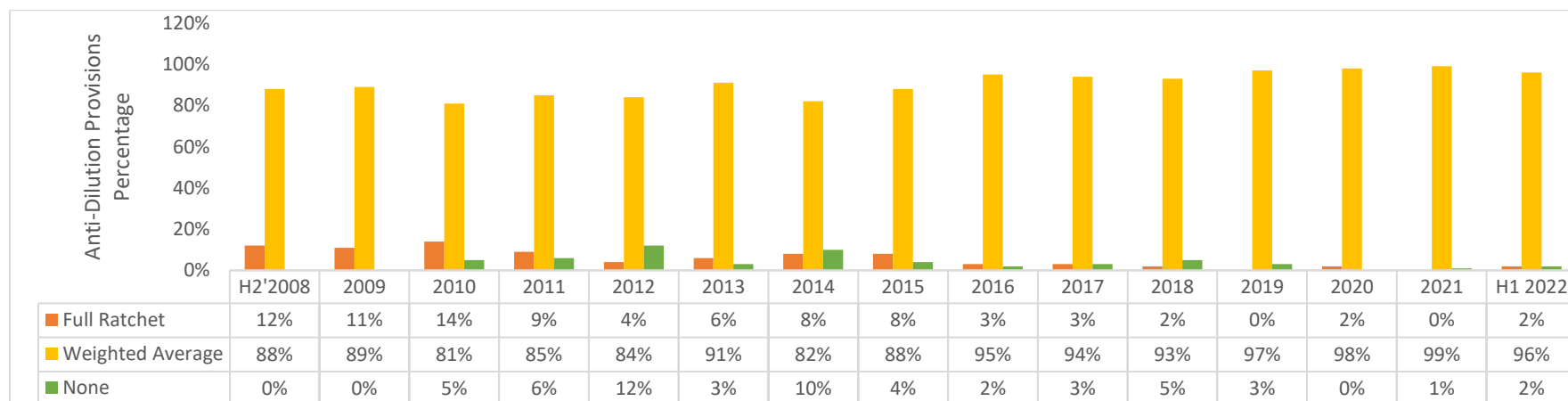
CUMULATIVE DIVIDENDS AND/OR ACCRUED INTEREST AS PART OF THE LIQUIDATION PREFERENCE

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



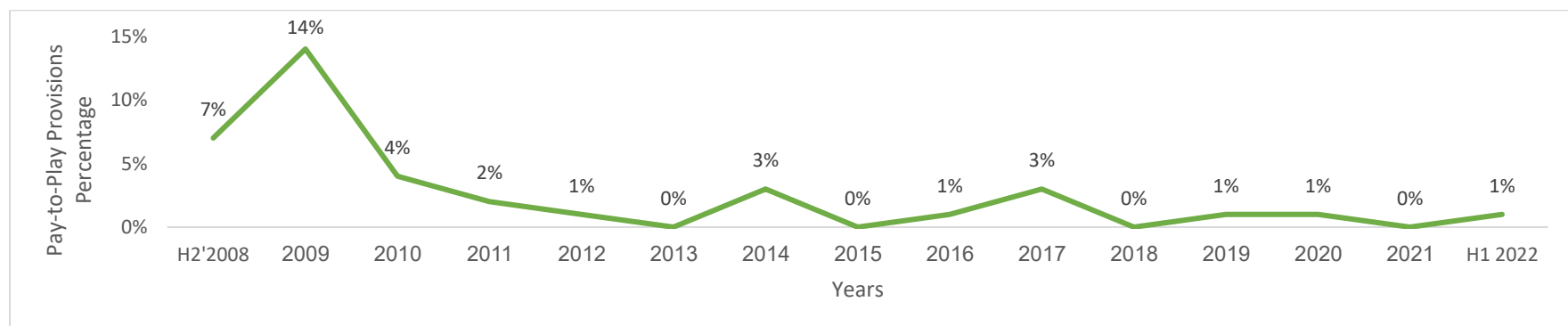
ANTI-DILUTION PROVISIONS

The use of anti-dilution provisions in the financings which took place in the first half of the year 2022 and the periods covered by our previous surveys may be broken down as follows:



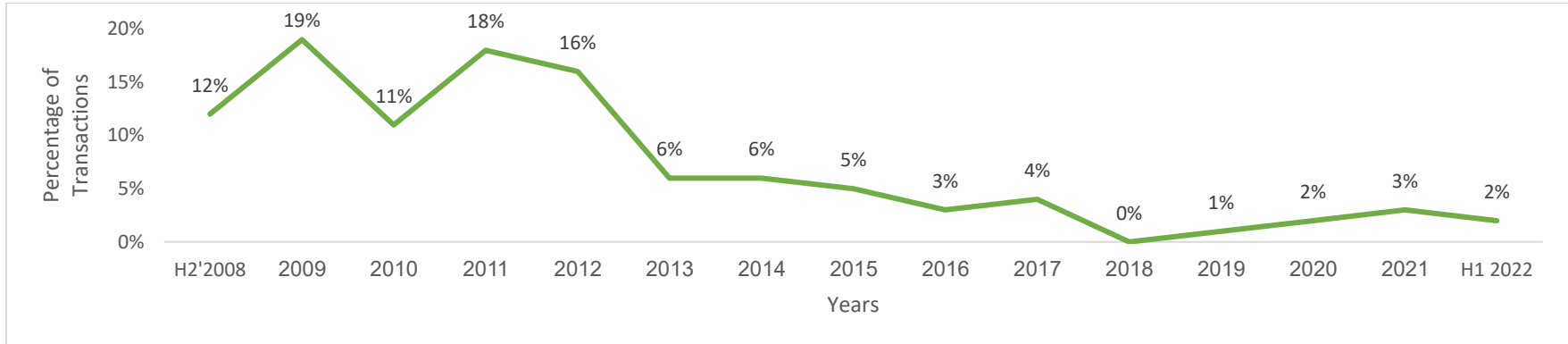
PAY-TO-PLAY PROVISIONS

The use of pay-to-play provisions in the financings which took place in the first half of the year 2022 and the periods covered by our previous surveys may be broken down as follows:



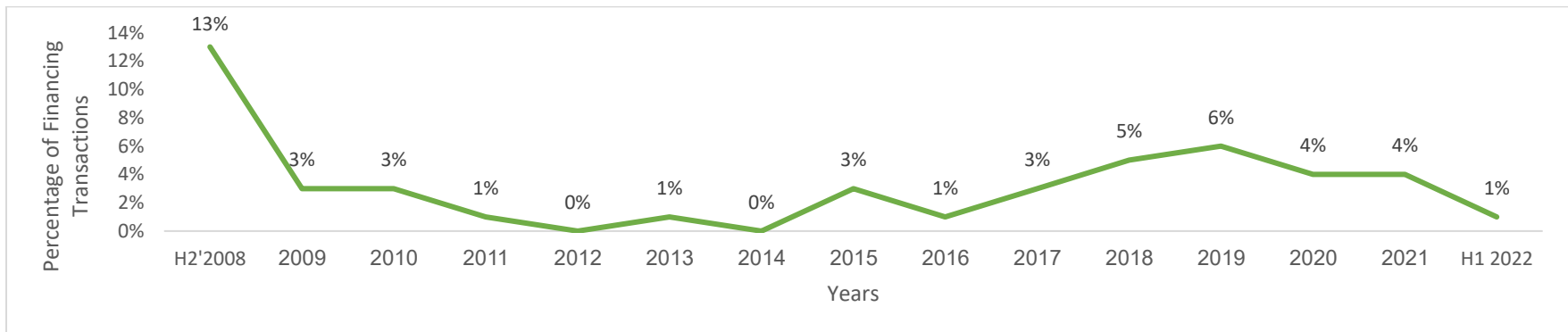
REDEMPTION

The percentage of transactions in the first half of the year of 2022 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 the first half of the year of 2022 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:



FENWICK & WEST LLP. AND SHIBOLET & CO.

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 2022 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 2022 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 the type of round as follows:

- Series A – 30% (compared to 26% in Silicon Valley)
- Series B – 31% (compared to 31% in Silicon Valley)
- Series C – 16% (compared to 24% in Silicon Valley)
- Series D – 10% (compared to 9% in Silicon Valley)
- Series E and higher – 10% (compared to 10% in Silicon Valley)

PRICE CHANGE

The financings during the first half of the year of 2022 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	Israel	Silicon Valley
Down	9%	3%
Flat	1%	2%
Up	90%	95%

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

Series	Israel	Silicon Valley
B	2%	4%
C	23%	4%
D	0%	0%
E and higher	15%	0%

LIQUIDATION PREFERENCE

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

Israel	Silicon Valley
31%	16%

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

Series	Israel	Silicon Valley
B	34%	9%
C	27%	20%
D	43%	25%
E and higher	15%	20%

MULTIPLE-BASED LIQUIDATION PREFERENCES

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

Israel	Silicon Valley
4%	4%

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	50%	100%
>2x - 3x	25%	0%
>3x	25%	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:

Israel	Silicon Valley
5%	2%

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
57%	60%

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
12%	2%

ANTI-DILUTION PROVISIONS

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	2%	0%
Weighted Average	96%	100%
None	2%	0%

PAY-TO-PLAY PROVISIONS

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

Israel	Silicon Valley
1%	2%

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%	3%

CORPORATE REORGANIZATIONS

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

Israel	Silicon Valley
1%	6%

For additional information about this report, please contact

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