



**TRENDS IN
LEGAL TERMS
IN VENTURE
FINANCINGS IN
ISRAEL
2023 SURVEY**

Dear Clients and Friends,

Re: **Survey on Legal Terms of Venture Capital Transactions – For the Year of 2023**

We are pleased to present the results of our survey for the year of 2023, 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 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 results of the survey for 2023 reflected a sharp rise in down-rounds both in Israel as well as in Silicon Valley.

But where as in Silicon Valley – the rate of down-rounds rose from a rate of 5% in 2022 to a rate of 11% in 2023, in Israel the rate more than doubled – from a rate of 9% to a rate of 20%! In other words, the rate of down-rounds in Israel was almost double that of Silicon Valley. It should also be noted that this was the highest rate of down-rounds we observed since the financial crises in 2008.

In Israel the high rates of down-rounds in 2023 for the most part started at C and later rounds, whereas in Silicon Valley, the high rates of down-rounds in 2023 were observed mainly with older companies (E and after). This is yet another example of the impact of the climate in Israel on Company valuations – from early stage to mature companies. It should also be noted that companies that were able to, avoided fundraising at down-round valuations, either by deferring their fund raising efforts, or by using other fund raising instruments (such as convertible debt (CLAs, SAFEs)) in order to among other things, avoid down-round valuations, hence these findings are all the more significant in reflecting the urgent need of capital by the companies surveyed.

In 2023, investors in Israel, as well as in Silicon Valley, continue to invest through non-participating preferred shares – with the usage rate of “preferred participation rights” in the low single digits. However, in Israel we observed an increase in the

rate of the usage of multiples on the liquidation preference of non-participating shares, which more than doubled compared to the usage rate observed in 2022 – from a rate of 5% in 2022 to a rate of 12% in 2023! The use of multiples reduces the differences between non-participating shares and participating shares with cap on the participation right, since a multiple on the liquidation preference, similar to the participation rights of participating shares (after receiving back their investment) –guarantees the investor a minimum return that is higher than its investment in the company. From an economic perspective, guaranteeing a minimum return to an investor reflects a company valuation that is lower than the stated value, and is another indication of the rate of down-round investments.

It is interesting to note that both in Israel and in Silicon Valley, the rate of A rounds continued to increase in 2023 accounting for close to half of the rounds observed. In a crisis environment, the most likely explanation is that, as mentioned above – companies will seek to postpone or circumvent a down-round equity financing round, by either deferring the financing round or fundraising through alternative investment instruments. It's likely that absent this phenomenon, the rate of down-rounds we observed would have been significantly higher and conversely, the rate of A rounds, significantly lower. In this context, it should be noted that according to other surveys in the industry - the absolute number of A rounds was less than half of the number of A rounds in 2021, demonstrating that in 2023 companies also had increasing difficulty raising their series A funding.

The survey results as described above reflect a crisis in the industry – a crisis that is being felt more acutely in Israel.

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.

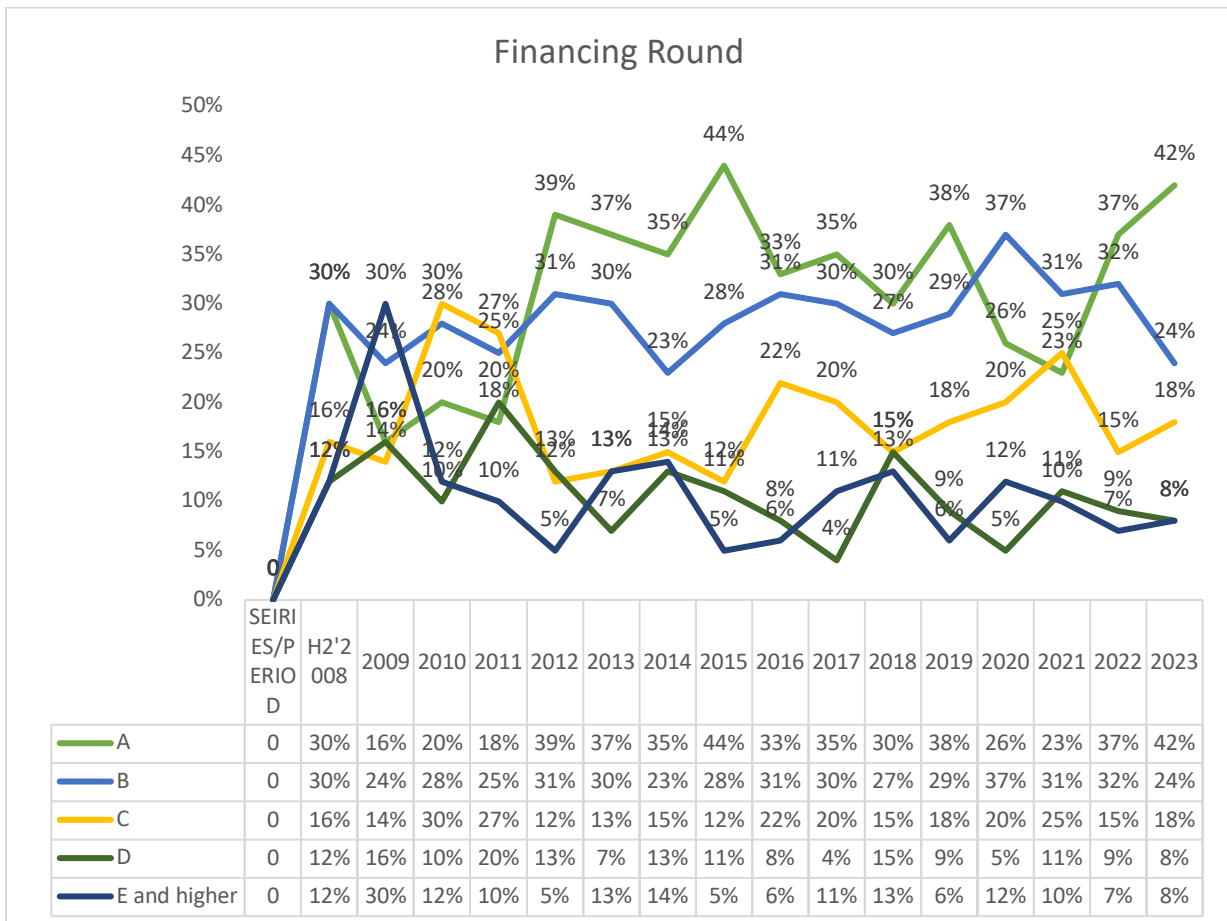
Trends in Legal Terms in Venture Financings in Israel 2023 Survey

BACKGROUND

We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during 2023. Our survey does not include financing rounds of less than U.S. \$500,000. The tables below also show, for comparison purposes, the results of our previously released surveys.

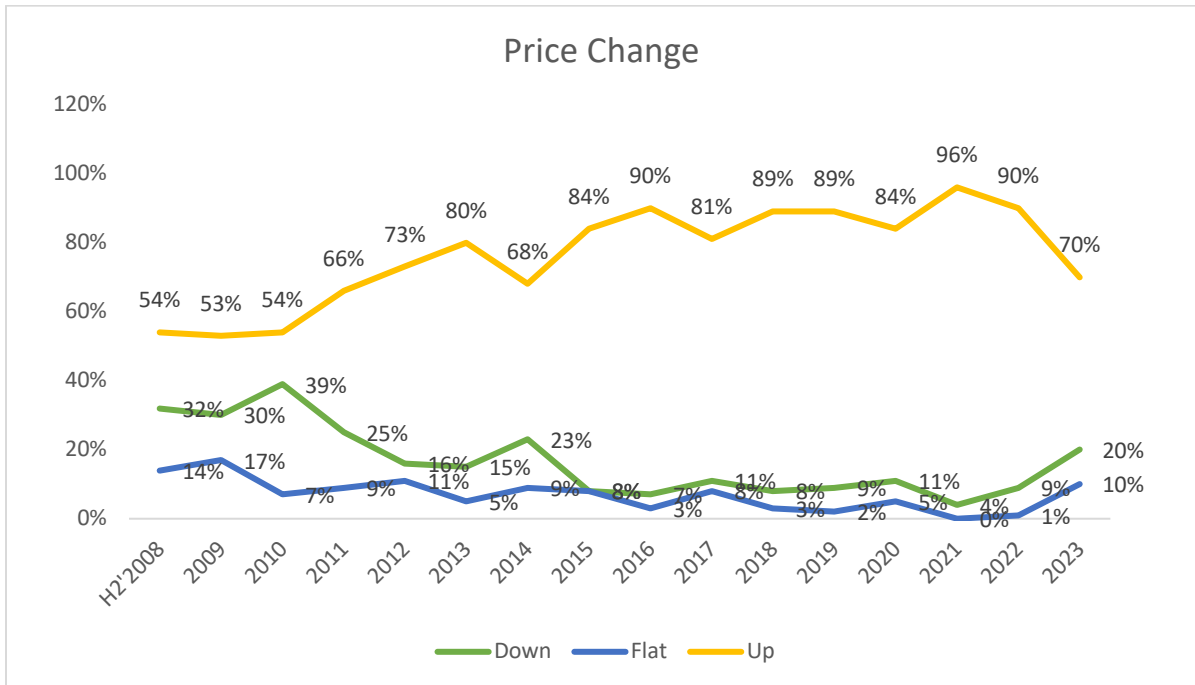
FINANCING ROUND

The financings closed in the year 2023 and in the periods covered by our previous surveys may be broken down by types of rounds or series, as follows:



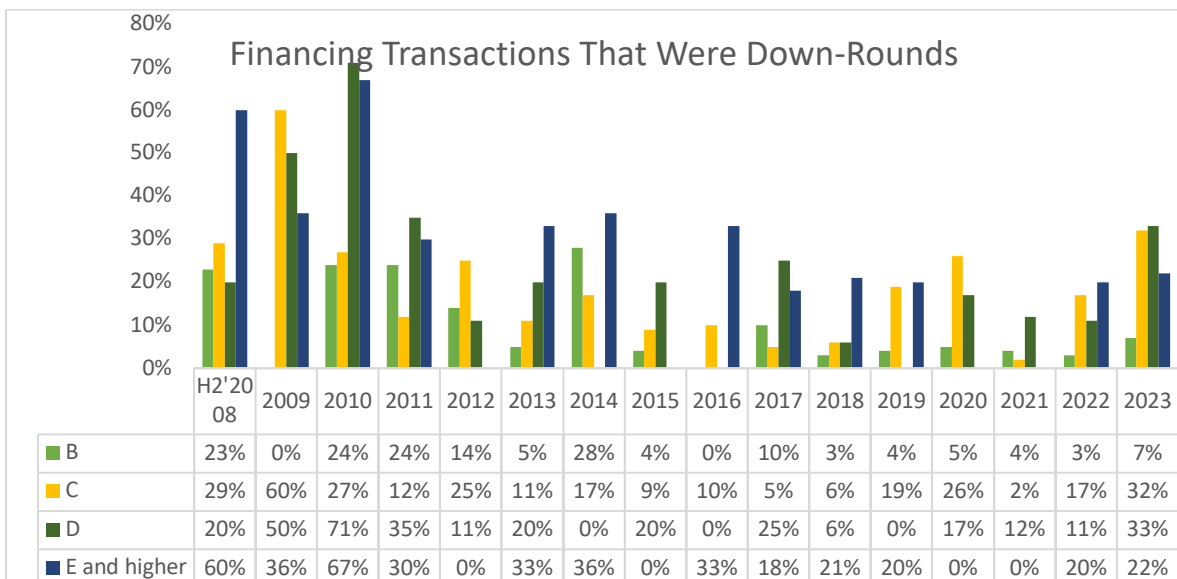
PRICE CHANGE

The financings closed in the year 2023 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:



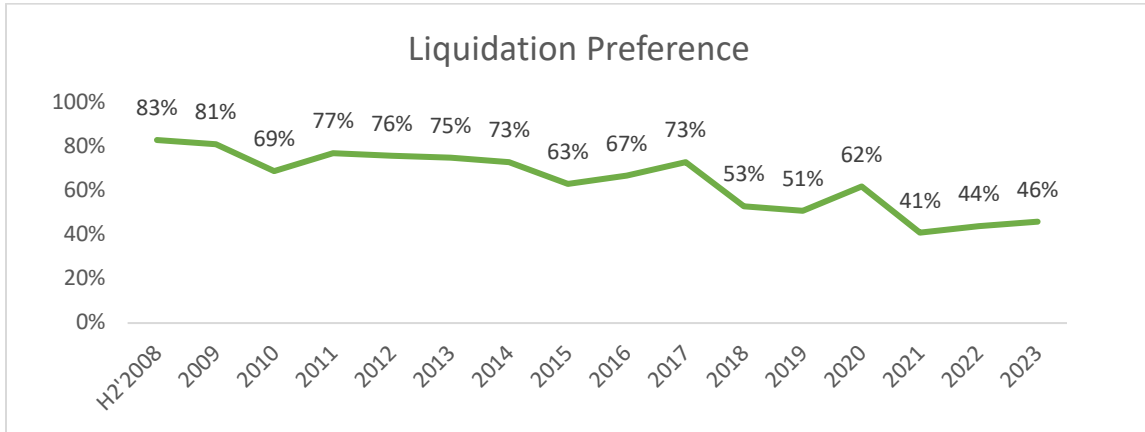
FINANCING TRANSACTIONS

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



LIQUIDATION PREFERENCE

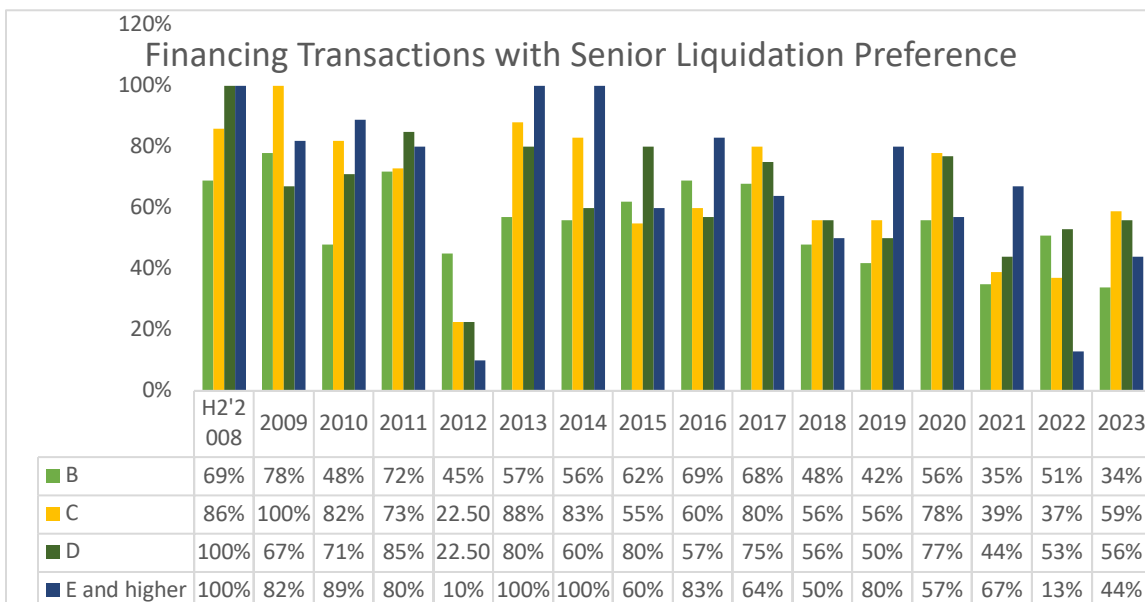
Senior liquidation preferences were used in the following percentages of financings:

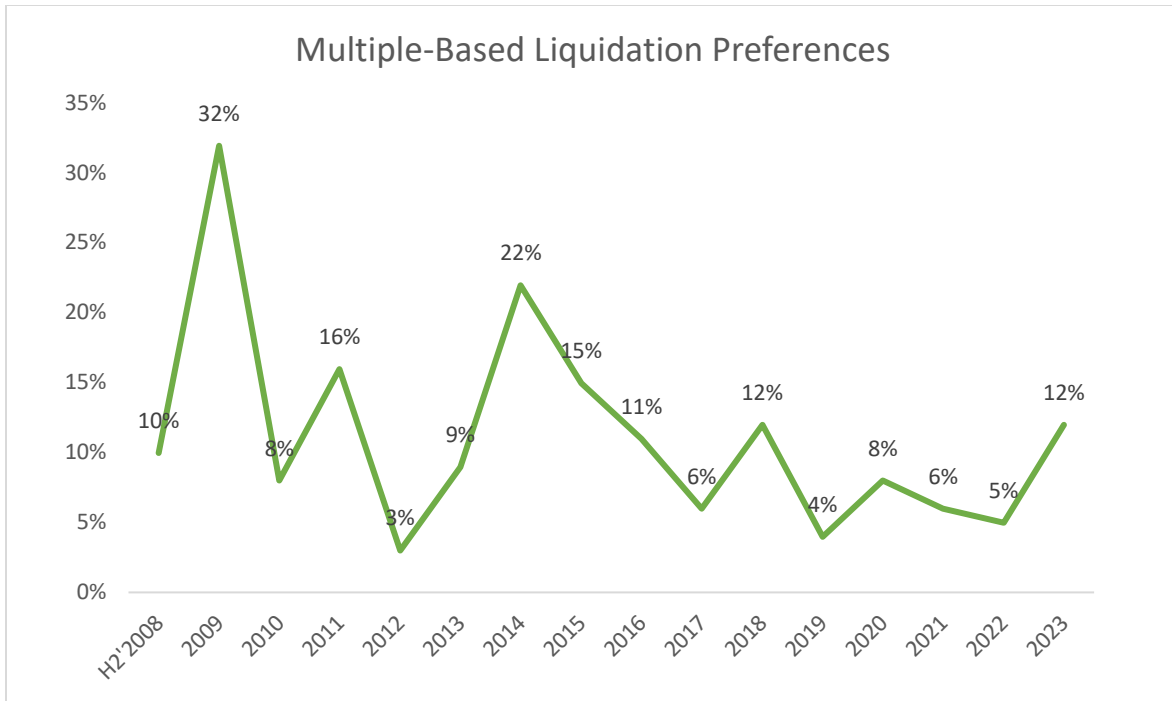


The percentages of financing transactions with a senior liquidation preference, broken down by series, were as follows:

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	2022	2023
x- 2x1<	100%	75%	100%	70%	100%	100%	50%	80%	100%	67%	71%	0%	50%	100%	66%	72%
x3 - x2<	0%	13%	0%	20%	0%	0%	38%	20%	0%	0%	29%	100%	50%	0%	17%	14%
x3 <	0%	12%	0%	10%	0%	0%	12%	0%	0%	33%	0%	0%	0%	0%	17%	14%

PARTICIPATION IN LIQUIDATION

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

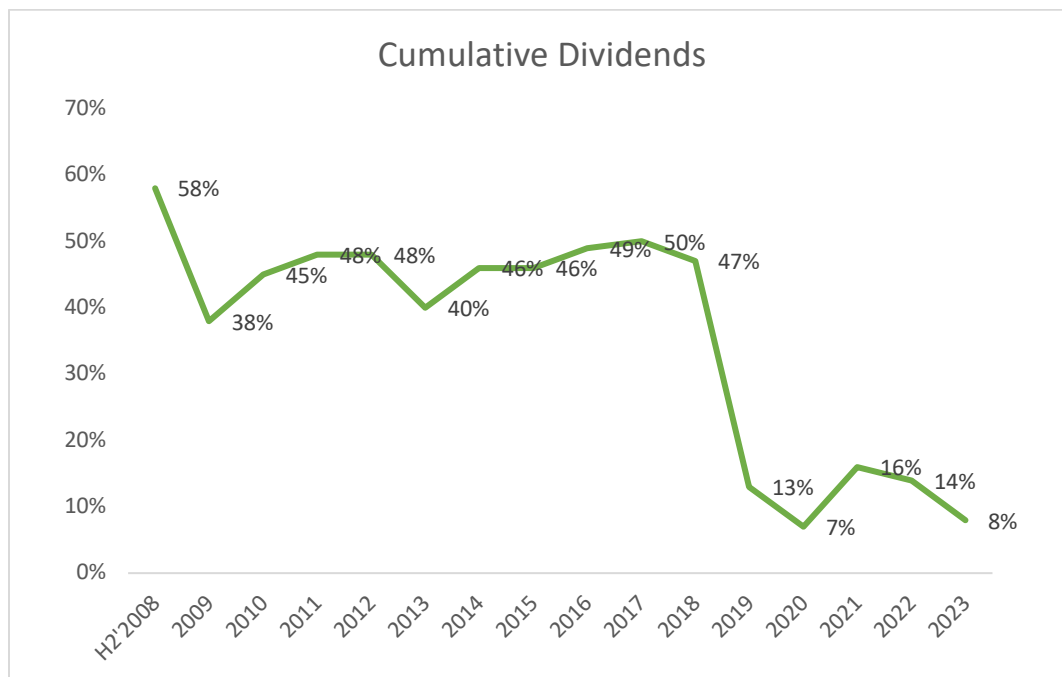
H2'2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
88%	84%	72%	77%	69%	60%	54%	41%	40%	31%	30%	16%	17%	7%	6%	5%

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	2022	2023
58%	61%	62%	59%	59%	57%	53%	55%	38%	44%	63%	43%	35%	75%	58%	50%

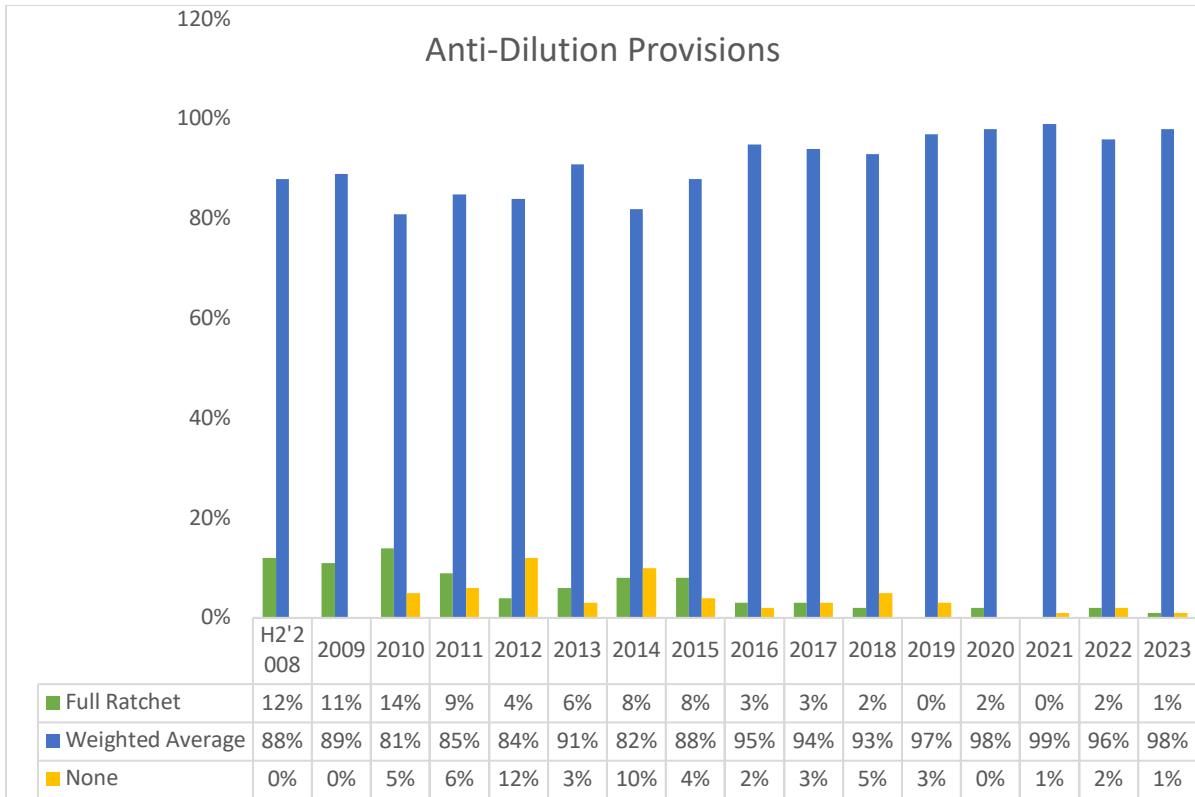
CUMULATIVE DIVIDENDS AND/OR ACCRUED INTEREST AS PART OF THE LIQUIDATION PREFERENCE

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



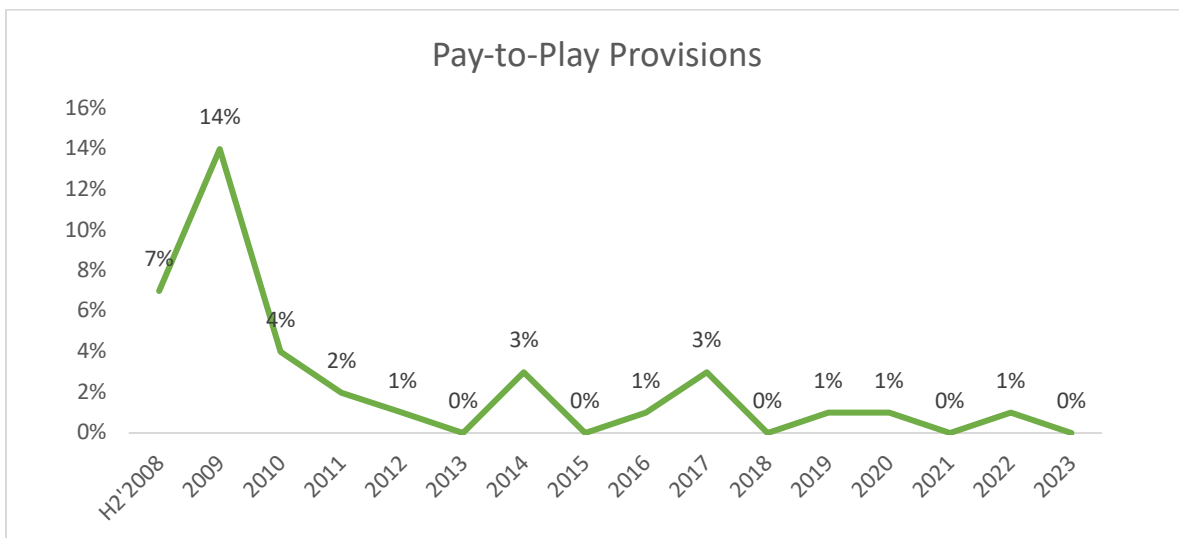
ANTI-DILUTION PROVISIONS

The use of anti-dilution provisions in the financings that took place in the year 2023 and in the periods covered by our previous surveys may be broken down as follows:



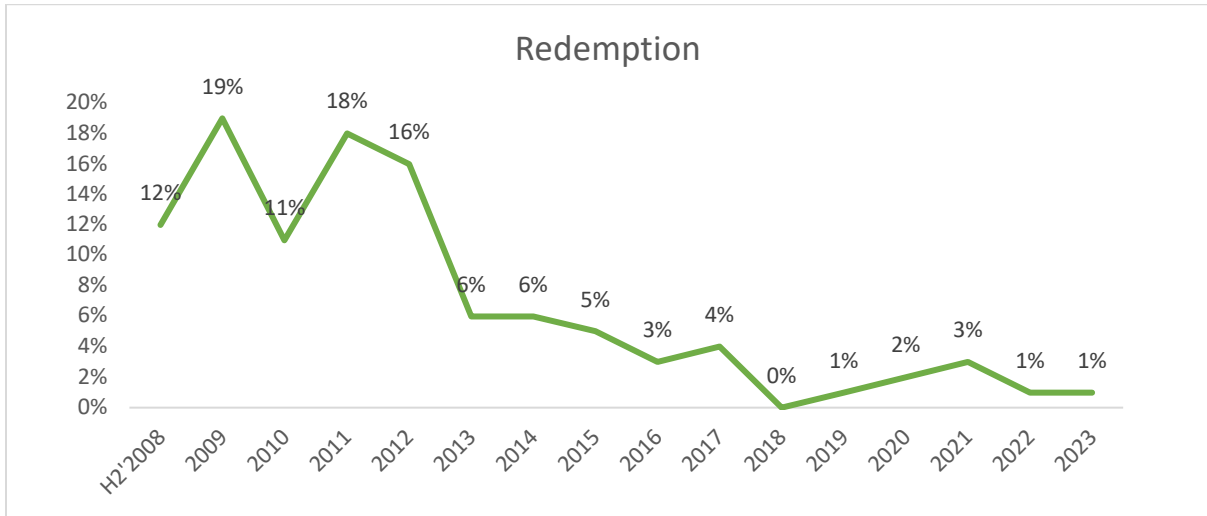
■ PAY-TO-PLAY PROVISIONS

The use of pay-to-play provisions in the financings that took place in the year 2023 and in the periods covered by our previous surveys may be broken down as follows:



REDEMPTION

The percentage of transactions in the year 2023 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 year 2023 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:



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 2023 Survey

BACKGROUND

We have analyzed the terms of venture financings for Israeli-based/related technology companies that reported raising money during the year 2023 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 – 42% (compared to 49% in the Silicon Valley)
- Series B – 24% (compared to 29% in the Silicon Valley)
- Series C – 18% (compared to 12% in the Silicon Valley)
- Series D – 8% (compared to 5% in the Silicon Valley)
- Series E and higher – 8% (compared to 5% in the Silicon Valley)

PRICE CHANGE

The financings during the year 2023 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	20%	11%
Flat	10%	14%
Up	70%	75%

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

Series	Israel	Silicon Valley
B	7%	8%
C	32%	13%
D	33%	6%
E and higher	22%	33%

LIQUIDATION PREFERENCE

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

Israel	Silicon Valley
46%	17%

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

Series	Israel	Silicon Valley
B	34%	15%
C	59%	17%
D	56%	24%
E and higher	44%	21%

MULTIPLE-BASED LIQUIDATION PREFERENCE

The percentages of financing transactions with senior liquidation preferences that included multiple preferences were as follows:

Israel	Silicon Valley
12%	5%

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	72%	100%
>2x - 3x	14%	0%
>3x	14%	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
5%	3%

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
50%	50%

■ 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
8%	3%

ANTI-DILUTION PROVISIONS

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	1%	0%
Weighted Average	98%	100%
None	1%	0%

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
1%	2%

CORPORATE REORGANIZATIONS

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

Israel	Silicon Valley
3%	5%