



Dear Clients and Friends,

Re: **Survey on Legal Terms of Venture Capital Transactions – For the Year 2014**

We are pleased to present the results of our survey for the year of 2014, 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 year of 2014 was declared by the press as the 'Year of Exits'. No doubt the feeling in the air is that of growth and momentum, making it hard not to wonder whether in fact this serves as an indication that we are entering into a new "bubble"? Are we going through a phase where the industry is getting carried away and company valuations are continuously rising as was witnessed in the period prior to the burst of the previous bubble?

Our survey indicates the continuing trend of industry support of first round financing, with the rate of first round financings standing at 35%, constituting the highest rate among the rounds surveyed in 2014.

In addition, alongside the high rate of first rounds, we also observed a high rate of late rounds, at the rate of 27% (D rounds and up), an indication that more than a few companies that have been supported in the past, are continuing to grow and develop. This figure comes after three consecutive years in which the rate of first round financings constituted the highest of the rounds surveyed and this is the first time since we began this survey that there is a high rate of late rounds alongside the rate of first rounds which rate of late rounds was the highest rate surveyed up till now.

Moreover, the rate of up-rounds represented the absolute majority, and according to the data we collected, the second half of 2014 was characterized by an even higher rate of up-rounds in comparison to the first half (73% in the second half compared to 62% in the first half).

However, when looking at the complete picture what is seen is the following: An annual comparison indicates that, the number of up-rounds in 2014 actually decreased compared to 2013 (68% in 2014 compared to 80% in 2013) and not only that, but there was a significant number of down-rounds which stood at 23%. To give some perspective - in Silicon Valley on the other hand, the rate of down rounds was only 8%! This data, in our opinion, reflects the fact that the industry is evaluating companies based on their merits, and where it is justified is also reducing their valuation. Our conclusion, therefore, is that at least for the year of 2014 it can't be said that the reality of the situation in Israel reflects a situation of a bubble.

On the legal side, it is interesting to note that the year of 2014 was characterized by a further decline in rounds with participation rights of preferred shares, to its lowest level surveyed by us - 54%



(compared to rates above 80% through 2009) and rate levels of around 70% through 2012). Since 2012, we have witnessed a steady decline in the usage of this right, although the road is still a long way ahead when compared to a rate of 23% in Silicon Valley.

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

(2014 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli and Israeli-related technology companies that reported raising money during 2014. 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 2014 and in the periods covered by our previous surveys may be broken down by types of round, or series, as follows:

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

- **Price Change** – The financings closed in 2014 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	2014	2013	2012	2011	2010	2009	H2'08	H1'08
Down	23%	15%	16%	25%	39%	30%	32%	18%
Flat	9%	5%	11%	9%	7%	17%	14%	0%
Up	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	2014	2013	2012	2011	2010	2009	H2'08	H1'08
B	28%	5%	14%	24%	24%	0%	23%	7%
C	17%	11%	25%	12%	27%	60%	29%	0%
D	0%	20%	11%	35%	71%	50%	20%	57%
E and higher	36%	33%	0%	30%	67%	36%	60%	33%

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

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

2014	2013	2012	2011	2010	2009	H2'08	H1'08
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	2014	2013	2012	2011	2010	2009	H2'08	H1'08
>1x- 2x	50%	100%	100%	70%	100%	75%	100%	100%
>2x - 3x	38%	0%	0%	20%	0%	13%	0%	0%
> 3x	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:

2014	2013	2012	2011	2010	2009	H2'08	H1'08
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:

2014	2013	2012	2011	2010	2009	H2'08	H1'08
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:

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

- **Anti-dilution Provisions** - The use of anti-dilution provisions in the financings which took place in 2014 and in the periods covered by our previous surveys may be broken down as follows:

Type of Provision	2014	2013	2012	2011	2010	2009	H2'08	H1'08
Full Ratchet	8%	6%	4%	9%	14%	11%	12%	9%
Weighted Average	82%	91%	84%	85%	81%	89%	88%	91%
None	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 2014 and in the periods covered by our previous surveys may be broken down as follows:

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

- **Redemption** – The percentage of transactions in 2014 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:

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

- **Corporate Reorganizations** – The percentage of post-Series A financing transactions in 2014 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:

2014	2013	2012	2011	2010	2009	H2'08	H1'08
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
(2014 Survey)

- **Background** – We have analyzed the terms of venture financings for Israeli based/related technology companies that reported raising money during 2014, 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 – 35% (compared to 25% in the Silicon Valley)
 - Series B – 23% (compared to 23% in the Silicon Valley)
 - Series C – 15% (compared to 21% in the Silicon Valley)
 - Series D – 13% (compared to 12% in the Silicon Valley)
 - Series E and higher – 14% (compared to 19% in the Silicon Valley)
- **Price Change** – The financings during 2014 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	23%	8%
Flat	9%	14%
Up	68%	78%

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

Series	Israel	Silicon Valley
B	28%	6%
C	17%	8%
D	0%	5%
E and higher	36%	14%

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

Israel	Silicon Valley
73%	26%

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

Series	Israel	Silicon Valley
B	56%	18%
C	83%	20%
D	60%	27%
E and higher	100%	41%

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

Israel	Silicon Valley
22%	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	Israel	Silicon Valley
>1x - 2x	50%	75%
>2x - 3x	38%	25%
>3x	12%	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
54%	23%

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
53%	56%

- **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
46%	5%

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

Type of Provision	Israel	Silicon Valley
Full Ratchet	8%	1%
Weighted Average	82%	97%
None	10%	2%

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

Israel	Silicon Valley
3%	4%

- **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%	12%

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

Israel	Silicon Valley
0%	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.