

Venture capital investment in Israel: market and regulatory overview

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MARKET OVERVIEW

1. What are the main characteristics of the venture capital market in your jurisdiction?

Venture capital and private equity

Despite Israel's small population and limited geographic size, the Israeli venture capital market is one of the largest in the world in absolute terms and has had a profound effect on the Israeli economy. Israeli venture capital traditionally has focused on seed and early stage companies and on technology-oriented companies more than most other comparable markets.

Private equity in the form of buyout funds or private equity funds that provide growth capital to companies that are not high tech is less developed, although this segment has grown in recent years. In addition, there are a relatively large number of hedge funds active in the country.

Venture capital remains by far the largest and most important segment of private risk investment both in size and in its relative importance to the economy. Venture capital in Israel is very similar in attitude to US venture capital as practised in Silicon Valley or Boston, with similar deal terms and documents.

Sources of funding

Israeli seed and early stage companies may receive funding from a wide variety of sources including:

- Bootstrapping entrepreneurs who fund themselves.
- Friends and family.
- Angels (particularly entrepreneurs that have had exits and have money to invest).
- Israeli venture capital funds.
- Non-Israeli venture capital funds (some of which have offices in Israel).
- Venture lenders.

An additional important source of funding is the Office of the Chief Scientist (OCS) of the Israeli Ministry of Economy. This provides grants for participation in research and development (R&D) programmes and is a primary funder of a nationwide incubator programme. This includes regional technological incubators as well as industry-specific incubators, such as incubators for biotech, cyber technology and others. The grants are repaid with royalties from sales and require an undertaking to uphold the R&D Law 1984, which sets limitations on the transfer of IP developed with the grants outside of Israel.

A new form of funding that has expended exponentially over the last couple of years is crowd-funding. This implies raising capital

from non-accredited investors, but some of this is in fact geared to accredited investors only. There are numerous websites raising capital for seed and early stages companies. As there is no legislation in this area at this time, this promises to be an area of legal development in the coming years. The Israel Securities Authority (ISA) recently issued a report on "investors clubs" as a new source of funding for start-up companies.

Types of company

Companies receiving funding from venture capital firms are from all sectors of high technology, but there is an emphasis on the fields of:

- Communications and components.
- Enterprise software.
- Internet.
- Biotech.
- Medical devices.
- Cleantech.
- In the last few years, mobile apps.

Israeli venture-backed companies tend historically to be in fields, which are technologically "heavy", with high technological barriers to entry. However, over the last few years Israeli venture-backed companies have been successful in the areas of mobile apps and other more consumer oriented areas. Start-up companies tend to reflect the latest technological trends around the world, as can be seen by the current proliferation of crypto-currency (for example, bitcoin) related companies.

The companies range from seed/pre-seed stage companies to growth/late-stage companies. Seed-stage companies often receive some form of venture capital funding.

The companies themselves are typically either companies registered in Israel or corporations registered in Delaware with Israeli subsidiaries.

Market trends

Venture capital investment in Israel-related companies reached US\$2.3 billion in 2013 in 662 companies, based on data from the IVC Research Center (www.ivc-online.com). This is the highest amount ever recorded, other than the bubble year of 2000 (when US\$3.1 billion was invested). The IVC further reported that of all capital raised in 2013, investments in the following sectors were as follows:

- Life science: 23%.
- Software: 21%.
- Internet: 19%.

- Communications: 16%.
- Semi-conductor: 10%.
- Cleantech: 6%.

A shake out among venture capital firms has been in progress for a number of years since the bubble burst, with numerous firms not succeeding in raising follow-on funds, while other firms have raised substantial funds.

Overall investment by Israeli venture funds as a proportion of all venture capital investment has been dropping steadily, and reached a low of 24% of all venture capital investment in Israel in 2013. The remainder was invested by non-Israeli venture funds (particularly US firms), angel investors, corporate investors and others.

2. Are there any recent or proposed regulatory changes affecting the venture capital industry?

There have been no recent changes to the regulatory environment affecting the venture capital industry. Changes to the overall business environment, such as tax reforms and changes to tax rates, are ongoing.

TAX INCENTIVE SCHEMES

3. What tax incentive or other schemes exist to encourage investment in venture capital companies? At whom are the schemes directed? What conditions must be met?

Generally, tax incentives to encourage investment in venture capital funds are aimed at foreign (non-Israeli) investors, and often result in the non-Israeli investor being exempt from Israeli capital gains tax on the realisation of their investment in Israeli technology companies.

Individual tax rulings

A venture capital fund with non-Israeli investors can apply to the Israel Tax Authority for a tax ruling that the non-Israeli investors are exempt from Israeli capital gains tax on the realisation of the fund's investments in Israeli companies. The ruling is subject to a number of prerequisites with respect to:

- The size of the fund.
- The nature of the investments.
- The place of management of the fund.

Generally, these restrictions do not interfere with the reasonable operation of funds focusing on Israeli investments. However, they usually are not appropriate for non-Israeli funds making one-time or limited investments in Israeli companies.

Typically, the rulings apply to funds:

- That have raised a minimum of US\$10 million (with at least half of that amount from non-Israeli investors).
- With ten different investors, with no single investor being entitled to more than 20% of the fund's gains (although this ceiling is sometimes subject to negotiation if it is necessary to attract a particular "anchor" investor).
- In which at least half of the invested capital is in Israeli companies engaged in qualifying activity (broadly defined to include virtually all high tech sectors).

- With at least 30% of the capital invested directly or indirectly in Israeli companies in which they own the IP they have developed.

The rulings often contain restrictions concerning the concentration of investment in any given portfolio company. Special provisions in the rulings also deal with the taxation and exemption of carried interest gains in the hands of fund general partners. It is sometimes possible to obtain more favourable rulings.

FUNDING SOURCES

4. From what sources do venture capital funds typically receive funding?

The venture capital funds typically raise the large majority of their funding from non-Israeli sources, particularly institutional investors in North America, but also from Europe and East Asia. Investors include:

- Pension funds.
- Endowment funds.
- Corporate/strategic investors.
- High net-worth individuals.

Israeli pension funds, insurance companies and banks also invest in venture capital funds, but usually they constitute a relatively small portion of the overall investment. A government programme that provides a safety net to Israeli pension funds and insurance companies investing in venture capital funds was in effect for investments made by these entities from 2011 through 2013, with mixed results.

FUND STRUCTURING

5. Can the structure of the venture capital fund affect how investments are made?

In general, the structure of the fund does not impact on how investments are made.

6. Do venture capital funds typically invest with other funds?

It is common, particularly in later stage deals, for a number of venture capital funds to invest together, particularly in capital intensive companies (for example, communications and components companies) where substantial follow-on funding is likely to be required.

At one point, non-Israeli venture capital funds preferred to invest in tandem with a local Israeli venture capital fund. Recently, non-Israeli venture capital funds have occasionally been setting up their own Israeli offices, and in other cases investing directly in Israeli companies without any local co-investors.

7. What legal structure(s) are most commonly used as vehicles for venture capital funds?

Venture capital funds are generally formed as one or more limited partnerships investing in parallel. The partnerships are generally registered in the Cayman Islands (for non-Israeli investors) and in Israel (for Israeli investors) for tax reasons. Other jurisdictions where partnerships are sometimes formed are the British Virgin Islands (BVI), Delaware and Jersey.

INVESTMENT OBJECTIVES

8. What are the most common investment objectives of venture capital funds?

The most common investment objective of venture capital funds is to achieve long term capital appreciation through the investment in, and exit from (generally through mergers, acquisitions and initial public offerings (IPOs)) high growth, innovative technology companies.

The funds generally have a term of ten years with options to extend (though some micro-funds have opted for shorter periods). The investment period (that is, deployment of capital in new portfolio investments) is generally within three to four years of the fund's initial closing (while retaining capital for management fees and follow-on investments until exit), sometimes shorter for micro-funds.

Periods to exit depend on the investment stage the fund focuses on, with longer periods to exit expected in seed stage investments and shorter periods to exits expected in expansion stage/late stage funds.

In the last few years we have seen a trend where the period to exit has lengthened somewhat on average (with an exceptional early exit from time to time) while some funds focused on early stage companies plan to exit their investments within three to four years of investment, through small scale exits or sales of their holdings to private equity funds.

FUND REGULATION AND LICENSING

9. Do a venture capital fund's promoter, manager and principals require licences?

A venture capital fund's promoter, manager or principals do not require a licence.

10. Are venture capital funds regulated as investment companies or otherwise and, if so, what are the consequences? Are there any exemptions?

Venture capital funds are not regulated as investment companies or otherwise. As venture capital funds are generally limited partnerships, the marketing and sale of interests in the partnerships is subject to applicable securities law. The securities laws in Israel restrict the offering of limited partnership units to no more than 35 persons, excluding certain qualified investors. An exemption for very high net-worth individuals was recently enacted.

11. How is the relationship between investor and fund governed? What protections do investors in the fund typically seek?

The relationship between the investors and the fund is governed by the terms of the fund's limited partnership agreement (and subject to the law of the jurisdiction of the partnership). Investors typically seek the same type of protections they would look for in a US-based fund, including:

- Confirmation of limited liability.
- Restrictions on use of proceeds.

- Restrictions on recourse borrowing.
- Clawback of overpaid carried interest.
- Financial reporting.
- Key man provisions.
- Non-competition restrictions preventing the promoters from setting up a competing fund until certain time periods have passed.
- Provisions governing potential conflicts of interest.
- Term of the fund.

INTERESTS IN INVESTEE COMPANIES

12. What form of interest do venture capital funds take in an investee company?

Venture capital funds generally invest in equity in the form of preferred shares. The use of convertible debt is also very common before an investment round, both as bridge financing for immediate use, and to avoid a company valuation when no third party investors are available to set a valuation.

Venture capital lenders generally provide secured loans to portfolio companies and receive an equity component in the form of warrants or an option to invest in the next round.

VALUING AND INVESTIGATING INVESTEE COMPANIES

13. How do venture capital funds value an investee company?

The valuation of investee companies is one of the most sensitive and secretive issues. In most cases, particularly in seed and early stage companies, the investee company's valuation is set based on a sensitivity analysis that takes into account some or all of the following:

- The percentage holding in the company that the fund aims to hold following the investment.
- The percentage holding the fund aims to hold at exit.
- The amount of capital the company is projected to require until the next round of financing.
- The amount of capital the company is projected to require until the exit.
- The reasonable (possibly conservative) expectation for an exit valuation.

The result of the sensitivity analysis should provide for a projected internal rate of return (IRR) greater than the minimal IRR the fund has set for itself. An additional benchmark for valuation often used is market comparables, whether in the public markets or, to the extent available, in the private markets.

Discounted cash flow and price to earnings ratios are rarely effective for valuing start-up companies, except possibly in the case of mature, expansion-stage companies with substantial revenue and a broad customer base.

Valuations are affected by competition among funds for what are seen as high quality deals. Additional factors that affect valuation include the amount of capital the fund must deploy before the end of its investment period and the size of the investing fund. Both of these factors push funds to deploy larger amounts of capital, causing an inflation of valuations.

14. What investigations do venture capital funds carry out on potential investee companies?

On a business level, before investing in potential portfolio companies, venture capital funds typically conduct a thorough investigation of:

- The company's (proposed) business (including, where relevant, calls with customers).
- The (potential) market, particularly with respect to the size of the market, potential for dynamic growth and barriers to entry.

Venture capital funds also typically invest a substantial amount of time in evaluating and sizing up the entrepreneurs and the potential portfolio company's management team. Some venture capital funds carry out preliminary legal due diligence at the term sheet stage to find any obvious fundamental problems from a legal perspective. Once venture capital funds have resolved to invest in a company, as part of the investment process they usually conduct a legal due diligence review in which they examine:

- The company's capital structure.
- Commercial relationships.
- Employment relationships.
- Other legal rights and obligations.

For those companies with an operating history and a more robust technology portfolio, venture capital funds typically retain an accounting firm to investigate the company's financial condition and a law firm to investigate the company's intellectual property portfolio. The nature and extent of the due diligence investigation vary considerably from fund to fund. Major issues that arise in legal due diligence in relation to the company's capital structure or its intellectual property rights may be deal breakers. Otherwise, legal due diligence serves primarily as an opportunity for reorganisation in the company, particularly in relation to capital structure and keeping proper corporate records.

LEGAL DOCUMENTATION

15. What are the principal legal documents used in a venture capital transaction?

Typically, the principal legal documents include, at minimum, a share purchase agreement, an amended or restated articles of association, and an investor rights agreement:

- **Share purchase agreement.** This contains the commercial agreement of the parties, including the amount of investment and valuation of the target company, as well as the representations and warranties of the parties and certain post-closing covenants.
- **Articles of association (or certificate of incorporation if a Delaware corporation).** These typically set out the rights conferred by the preferred shares, including dividend and liquidation preferences, anti-dilution protection and protective provisions. The articles of association (but not the certificate of incorporation) will generally also include board composition, pre-emptive rights, right of first refusal and bring-along (drag-along) provisions.
- **Investor rights agreement.** This contains those rights that may be of more general, ongoing application to shareholders of the company, including registration and information rights. In a Delaware corporation, this agreement (or this agreement and additional agreements) will include the board composition, pre-emptive rights, right of first refusal and bring-along (drag-along) provisions.

Some investments also include additional documentation, including:

- Shareholders' agreements.
- A large number of ancillary documents such as indemnification agreements, management rights letters, IP assignments, employment agreements, and so on.

PROTECTION OF THE FUND AS INVESTOR

Contractual protections

16. What form of contractual protection does an investor receive on its investment in a company?

Funds investing in a company typically receive the following protections:

- Dividend and liquidation preferences (*see Question 18*).
- Anti-dilution protection (*see Question 18*).
- Pre-emptive rights to participate in subsequent financing rounds (*see Question 22*).
- Rights of first refusal and co-sale (*see Questions 20 and 21*).
- Information rights, including rights to financial information and visitation and inspection rights (*see Question 19*).
- Registration rights.
- Representation on the board of directors.
- Protective voting provisions (veto rights).
- Restrictions on the use of proceeds.
- Directors' and officers' (D&O) and key man insurance.

Forms of equity interest

17. What form of equity interest does a fund commonly take (for example, preferred or ordinary shares)?

Funds always take preferred shares. Angel investors may take ordinary shares, though the current trend is for angel investors to take preferred shares as a fund does.

Preferred shares

18. What rights does a fund have in its capacity as a holder of preferred shares?

Holders of preferred shares typically have the following rights:

- The right to receive a dividend in priority to the payment of a dividend to any other class of shares. Although this right is very common, most hi-tech companies do not pay dividends.
- The right to a liquidation preference, typically a participating preference entitling the holder to some kind of preferred return (in Israeli companies, with an annual interest component, typically 6% to 8%), followed by the right to participate with the holders of ordinary shares on an "as converted" basis in any remaining proceeds (this is sometimes capped). The liquidation preference applies both to actual liquidation of the company and to most exit scenarios. At times the liquidation preference is capped at a multiple of the liquidation preference, typically of three to five times the liquidation preference.

- Anti-dilution protection, typically implemented by adjustments to the conversion rate under which the preferred shares may be converted into ordinary shares. The protection ranges from "full ratchet" (this is considered very pro-investor) to broad-based weighted average (this is considered more reasonable).
- The right to representation on the board of directors.
- Protective voting provisions. These require fund approval for a variety of actions, including the creation of a class of shares with rights superior to those held by the fund and exit events, as well as numerous other corporate activities.

Management control

19. What rights are commonly used to give a fund a level of management control over the activities of an investee company?

Board representation

Typically, funds receive representation on the board of directors and/or the right to appoint a non-voting observer to the board. This right may be conditional on the fund maintaining a certain level of ownership in the investee company.

Protective provisions

As holders of preferred shares, the fund also benefits from protective provisions, requiring the approval of the fund (occasionally of a director appointed by the fund, and occasionally of a specified majority of all holders of preferred shares) for a variety of actions, often including:

- Creation or issuance of a class of securities equal or senior to those held by the fund.
- Approval of exit events (that is, M&A and IPOs).
- The payment of dividends.
- The repurchase of ordinary shares.
- Adverse changes to the rights of the shares.
- Increasing the size of the board of directors.
- Incurring indebtedness in excess of a specified amount.
- Material changes in the business of the company.

Sometimes the protective agreements deal with management-type activities and include:

- Hiring and firing of key executives.
- Bank signature rights.
- Establishing and material deviation from an annual operational budget.

Management rights letter

Funds that require them for the US Employment Retirement Income Security Act (ERISA) purposes (and even those that do not) typically receive a management rights letter providing them with certain rights.

Information rights

Funds also commonly obtain information rights that allow them to obtain information about the company, to enable the fund to prepare financial reports to the fund's limited investors, as well as to facilitate an intelligent exercise of veto rights. Information rights usually include the right to:

- Audited annual financial statements.
- Unaudited (sometimes reviewed) quarterly financials and monthly reports.

- Annual budget.
- Inspection and visitation rights.
- Notification of material event.

Share transfer restrictions

20. What restrictions on the transfer of shares by shareholders are commonly contained in the investment documentation?

Right of first refusal

Often investors have a right of first refusal in relation to the sale of shares by other shareholders. Sometimes this right is limited to the holders of a certain minimum number of shares (for example, 2% of the outstanding share capital) and is exercised on a pro rata basis. Often this right is not reciprocal, that is, the holders of ordinary shares do not have a right of first refusal in relation to sales of shares by the fund.

Exercise of the right of first refusal is often conditional on the purchase by the shareholders of all the shares being offered. Typically, there are exceptions for transfers of shares for estate planning purposes and so on. As Israeli law makes this difficult, the company does not often have a right of first refusal on transfers of its shares.

No sale

Often founders are completely barred from, or severely limited in, selling their shares for a specific period of time (often at least three years, but occasionally until exit). Typically, exceptions are made for transfers of shares to family members or for other bona fide estate planning purposes. These restrictions are intended to ensure that the founders recognise their economic interests as being linked with the success of the company.

Securities laws

Transfers of shares are also governed by applicable securities laws.

21. What protections do the investors, as minority shareholders, have in relation to an exit by way of sale of the company?

Tag-along (co-sale) rights

Generally, the investors have the right to sell shares together with the founders (or other holders of ordinary shares) if and when the founders sell shares to third parties. This right (known as either a tag-along right or right of co-sale) can be exercised if the investor elects not to exercise its right of first refusal. The underlying rationale is that the investors are investing in the founders, and if the founders minimise their shareholdings the investors require the right to exit with the founders. However, the tag-along rights also serve to make it more difficult for founders to sell their shares and, in practice, force any such sale to be made in full co-ordination with the investors. It is very uncommon for founders to have tag-along rights in relation to sales of shares by funds.

Drag-along (bring-along) rights

Drag-along rights (more commonly referred to as bring-along in Israel) exist to facilitate the sale of the company in the face of opposition from minority shareholders. The articles of association commonly provide that where a specific percentage of shareholders (often including the holders of a specific percentage of preferred shares) agree to a bona fide third party purchase offer, then all shareholders must sell.

There is also a statutory bring-along right in the Companies Law 1999 that provides that if the holders of 80% (90%, in the case of companies established before 1999) of shares wish to sell, then all

shareholders can be forced to sell. "Deep pocket" strategic investors often attempt to impose restrictions on the operation of these clauses to make sure that they do not find themselves providing representations, warranties and indemnities that expose them and their "deep pocket" to liability that they deem to be excessive.

Pre-emption rights

22. Do investors typically require pre-emption rights in relation to any further issues of shares by an investee company?

Investors almost invariably require pre-emptive rights to participate in future financing rounds (at least for as long as they hold a certain percentage of the company's share capital). Sometimes, the right is limited to participation on a pro rata basis. Other times, the investor obtains a right of over-allotment, to take up shares that other participating shareholders elect not to purchase. Companies typically attempt to resist the request for over-allotment rights. These rights are generally subject to certain standard exclusions, such as:

- Issuances on exercise of employee share options.
- Issuance on conversion of preferred shares.
- Occasionally, certain issuances of warrants to strategic partners in transactions not primarily intended as financing transactions.

Consents

23. What consents are required to approve the investment documentation?

Approval by the company's shareholders and board of directors is required to complete the investment. In addition, if the company has already raised funds in an earlier investment round, approval by the earlier investor according to any protective provisions the investor may have is also likely to be required. If the company has received a grant from the Office of the Chief Scientist (OCS), consent from or notification of the OCS is also required.

COSTS

24. Who covers the costs of the venture capital funds?

Investment agreements typically provide that, on closing, the portfolio company covers the venture capital fund's costs in connection with the investment, up to a certain agreed cap. These costs usually include legal costs arising from the legal due diligence and drafting and negotiating the investment agreements, and often also include financial and technical due diligence.

If closing does not occur, the portfolio company does not cover the venture capital fund's costs.

FOUNDER AND EMPLOYEE INCENTIVISATION

25. In what ways are founders and employees incentivised? What are the resulting tax considerations?

Incentives

Israeli companies usually incentivise their employees (including founders) by granting share options to them, which are subject to vesting over a number of years. Founders of Israeli companies

sometimes receive shares that are subject to repurchase by the company at par value if the founder ceases to be employed by the company (sometimes known as reverse vesting). However, it is rare for an Israeli company to issue shares subject to repurchase to its employees.

Tax

Employees typically receive share options, which are exercisable if the employee continues to be employed during the relevant vesting period. Section 102 of the Tax Ordinance provides a mechanism for ensuring that these options are only taxed (at capital gains rates) on the sale of the underlying security (that is, the shares obtained on exercise of the option). To benefit from the beneficial tax treatment, the share option plan must comply with the requirements of section 102, including holding the options in trust for two years.

26. What protections do the investors typically seek to ensure the long-term commitment of the founders to the venture?

Investors typically use a combination of methods to ensure the founders' long-term commitment to the company:

- Investors often prohibit the founders from selling any of their shares for a period ranging from a number of years (at the earliest) to the closing of a sale of the company or its IPO (at the latest) (see *Question 20*).
- The investors typically require that the founders' shares are subject to a reverse-vesting mechanism, so that if the founder ceases to be employed by the company, the founder loses a portion of his shares (see *Question 25*).

These provisions tend to be heavily negotiated in transactions. Founders often take the position that they are entitled to all of their shares if their employment is terminated by the company without "cause" or if the company closes an IPO or M&A transaction.

EXIT STRATEGIES

27. What forms of exit are typically used to realise a venture capital fund's investment in an unsuccessful company? What are the relative advantages and disadvantages of each?

Venture capital funds typically attempt to realise their investment in unsuccessful companies by selling those companies. However, any proceeds received by the venture capital funds in these transactions are likely to fall short of the amount they invested in the unsuccessful companies. In addition, the ability to sell those companies often depends on the willingness of the company's management to co-operate in the sale.

Certain venture capital funds insert redemption rights into the investment agreements. Redemption rights are designed to enable a venture capital fund to recover its investment in an unsuccessful company. These rights allow the venture capital fund to require the portfolio company to repurchase the fund's shares if the company has not closed an M&A transaction or IPO within a specific number of years following the investment. However, due to the negotiating environment, as well as Israeli corporate laws limiting the ability of an Israeli company to repurchase its own shares, it is uncommon to find redemption rights provisions in Israeli companies.

28. What forms of exit are typically used to realise a venture capital fund's investment in a successful company? What are the relative advantages and disadvantages of each?

The typical forms of exit of a successful portfolio company, and the relative advantages and disadvantages, are:

- **Sale of the portfolio company's shares by all the portfolio company's shareholders.** Depending on the sale price, this is the most efficient and perhaps the most successful exit for a venture capital fund, in that it involves a sale of all of the fund's shares in the company, typically in return for cash or tradable securities. A potential disadvantage is that, depending on how the transaction is structured, approval of the transaction may require class votes, giving certain shareholders the ability to complicate and occasionally frustrate the transaction.
- **Sale of the portfolio company's assets.** While a sale of the company's assets has the advantage of not requiring shareholder approval, it often has the disadvantage of being inefficient from a tax perspective. On a sale of its assets, the portfolio company is subject to capital gains tax. When the resulting proceeds are distributed by the company to its shareholders, the distribution often is subject to a dividend tax.
- **IPO.** Flotation of a company's shares on a recognised stock exchange brings liquidity to the venture capital fund by enabling it to begin selling its shares on the public market.

However, sales of shares on certain stock exchanges are subject to time and quantity restrictions, which limit a fund's ability to sell all of its shares simultaneously. In addition, the share price is subject to volatility.

- **Sale of the portfolio company's shares in a private transaction by the venture capital fund.** A venture capital fund may sell its shares in a portfolio company to a third party. Often these sales are subject to a right of first refusal of other shareholders in the company. However, the price to be received by the venture capital fund is likely to reflect a discount, as the third party would be purchasing a minority interest in the company, and such sales until recently were relatively uncommon. Over the last few years, there is a trend where early stage investors are often partially or completely bought out by later stage investors looking to increase their holdings in successful companies beyond the holdings that the company is willing to sell. This also serves to reduce pressure for an early exit and give management additional time to grow the business for a more successful exit.

29. How can this exit strategy be built into the investment?

The venture capital fund's exit strategy is built into the investment documents by including tag-along and drag-along rights (J) as well as registration rights (the right to force the listing of the fund's shares on the exchange where an IPO has taken place) and, occasionally, the inclusion of redemption rights (see *Question 27*).

VENTURE CAPITAL/PRIVATE EQUITY ASSOCIATIONS

Israel Advanced Technology Industries

W www.iati.co.il

Status. The Israel Advanced Technology Industries (IATI) is a non-governmental organisation.

Membership. IATI members come from every level and aspect of the industry: Entrepreneurs, start-ups, incubators, accelerators, R&D centres, multinational companies, local and international venture capital funds, private investors, tech transfer companies and service providers.

Principal activities. IATI's mission is to strengthen the Israeli high tech and life science industries and create global, technological and innovational leadership. IATI researches, develops and advocates policies and actions that promote Israel's high tech industries, increasing awareness of its strengths and innovations worldwide.

Published guidelines. IATI has published best practices for entrepreneurs and start ups (see *website above*).

Information sources. IATI has published various resources (see *website above*).

Practical Law Contributor profiles



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