

**Alternate Financing Options during the Covid-19 Pandemic:
A Survival Guide for Startups**

Dear Friends and Clients of the Firm,

During these days of uncertainty amidst the Covid-19 Pandemic, beyond the direct impact to public health, a sharp decline in the investment activity of traditional venture capital funds is likely as part of the significant economic decline in Israel and the world at large caused by the spread of the virus. Nonetheless, even as the market for traditional venture capital investments tightens, entrepreneurs and startups should certainly consider the various alternative financing options at their disposal discussed below during these challenging times to meet their capital needs.

In light of the changing realities during which social media is on a rise of unprecedented proportions along with tech companies designed for enhancing the in-home experience on account of social distancing (video conferencing, virtual offices, online shopping, crypto-currency, data streaming and e-entertainment, home fitness, food delivery) entrepreneurs that demonstrate agility and adapt to these emerging markets will be in an excellent position to seek financing from potential investors. Moreover, the towering medical expenses and public health needs demand innovation in the health tech space.

**A. INITIATIVE OF THE ISRAELI GOVERNMENT FOR INNOVATIVE
R&D PROJECTS**

To this end, the Israel Innovation Authority (formerly: the Office of the Chief Scientist), in partnership with the Israel Health Ministry and the Headquarter for the National Digital Israel Initiative announced this month that it will grant Israeli companies an initial amount of NIS 50 million for R&D projects designed for developing products or technological solutions to cope with the challenges of the Covid-19 Pandemic.

Additionally, the Israel Innovation Authority, Ministry of Economy and Industry and the Manufacturers' Association of Israel are calling manufacturing plants to submit R&D plans for the accelerations and application of industrial products that promote competitiveness and leadership in combating the virus.

These programs will provide financial support of 50% or 75% of the expenditures for a program with the potential for an outstanding affect and advancement of public health and the health system in Israel and worldwide or that will create a technological breakthrough in its domain.

These calls for proposals are not limited to specific fields and may cover any relevant or overlapping disciplines.

Proposals to this initiative may be submitted by April 7th, 2020. See [here](#) for details and downloading the forms for submitting an application.

B. INTERNAL FINANCING ROUNDS

Companies that have raised financing and their current runway requires seeking additional financing in the immediate to near future should focus their efforts on rights offerings to existing shareholders with a vested stake in these companies. These financing rounds can be based on existing corporate documents as follow-on offerings, which, in turn can be consummated at a fast-track pace and for relatively low expenses to the companies and the investors.

C. THE STRENGTH OF THE CROWD

Pursuant to recent regulations promulgated under the Israel Securities Law that enable crowdfunding from the public via dedicated online platforms, many companies have taken advantage of this equity and debt financing alternative and have even successfully raised much needed funds through multiple crowdfundings with the same offering coordinator operating these online platforms. The regulations do not place a limit on the number of investors or a minimum investment amount, though typically the offering coordinator will require a minimum investment amount. Companies can raise up to NIS 4,000,000 – NIS 6,000,000, depending upon a number of variables, such as the commitment of a lead investor and a report from the Israel Innovation Authority validating the Company's technology. It needs to be borne in mind that while companies offering securities via these crowdfunding regulations are exempt from preparing and filing a prospectus, they are required to file an offering statement and once they avail themselves of this financing option, they will become subject to enhanced reporting obligations to its investors that are similar to those of publicly traded companies, though to a lesser degree.

D. CORPORATE VENTURE CAPITAL ARMS

While the activity of traditional VCs may be currently down, a flourishing source of capital is strategic financing from publicly traded corporations with venture capital arms (CVCs). CVCs in recent years have led the largest investment activity in Israel, such as Intel's \$15.3 billion acquisition of Mobileye, Nvidia's \$6.9 billion acquisition of Mellanox and Intel's subsequent \$2 billion acquisition of Habana Labs. Alongside these mega-deals, CVCs have invested billions of dollars in hundreds of Israeli startups in 2019¹ and these are sure to continue to serve as excellent financing sources for synergetic companies in their fields.

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As veteran attorneys who have been representing tech companies and their investors since the early 90's, we have seen the major upswing following the

¹ <https://www.calcalistech.com/ctech/articles/0,7340,L-3770933,00.html>

dot.com bubble of 2000 and the sub-prime depression of 2008 that ushered in many years of stable growth and continued prosperity. We are confident that VC activity will ramp up again once the coronavirus is eradicated, and in the meantime, we recommend exploring the financing options discussed above.

We wish to take this opportunity to wish you and your families our best wishes and look forward to assisting you through these times.

The information presented in this newsletter does not constitute legal advice, is not to be acted on as such, may not be current and is subject to change without notice.