The Truth About Investor Updates

4-5 minutes

The topic of “investor updates” has been debated frequently. Most folks who are not close to early-stage startups and new company formation would be surprised to discover that a high number of companies, after receiving funding from individuals or institutions, do not send updates to their investors. Contrast that with a fund manager, who is often required to issue quarterly capital account statements usually paired with a cover note and updates on specific companies.

For me, I am pretty zen about this after six years of early-stage startup investment. Would I hope all founders updated their investors, even if briefly? Yes, of course. But reflecting back on how things have worked, it feels as if 33% of teams are on their way to institutional financing after the seed, and I just stay in touch with the founders on an as-needed basis; for the 33% that struggle to get a product out into market or to find product-market fit, the behavior ranges from no updates at all unless requested all the way to really, really long updates that are hard to read and hard to parse; and for the middle 33%, it’s a big mix, and thats the opportunity I wanted to write about.

The conventional wisdom is when taking money from others, there is some ethical and/or moral obligation to send brief updates. I now have a different point of view on this argument. I don’t think it matters what the obligation is — but rather — it’s an opportunity for the founders to supply their most passionate early supporters with information and ammunition to infuse into our conversations with downstream investors, potential candidates, and potential angels and BD prospects.

If a founder I’ve backed simply sends 5-7 bullet points per month with some key stats, metrics, and requests for specific connections and help, then over time I follow their “story” and it becomes a part of my daily vocabulary. I spend a good deal of time sharing deal flow up and downstream with Series A and B investors, and when they ask me about opportunities coming down the pipeline in 6-12 months, I usually share what I’ve been told from the founders themselves over email or phone — I become their subtle pitch man. Contrast that with the ones where it’s difficult to pull clear information out of — those startups don’t make it into the conversation unless it’s obvious to everyone things are working.

For angels and early-stage pre-seed and seed firms, most of those financings do not come with information rights. At the institutional Series A or B level, those financing documents do come with information rights — and it took me a while to understand why: because most won’t do it unless they’re required to by a binding document. Now, one can argue that an investor should be close enough to their companies to know all of this information via relationships. There is a grain of truth to that. But seed portfolios are largely different than larger funds.

To summarize the key point – I am zen about investor updates or the lack thereof. Want to send them? Great. Don’t think their important? That’s fine. The investors don’t own or run the company. But what I do feel strongly about — and have seen play out in the social networks among investors where potential deal information is shared — having a sense of the metrics over time and key accomplishments achieved is hugely valuable to arming me with information to begin the persuade the next investor to take a harder look, to take a meeting, and so forth. Most Series A financings are not big momentum rounds where everyone is competing — often it’s a personal connection forged after an angel or seed investor keeps telling a VC about a specific founder or company. As a founder, I think it makes sense to strive to be in that conversation, and brief email updates are a cheap and easy way to do just that.