



Investor Memo

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Introduction

Rippling's one underlying insight is that most business systems are full of information about employees.

Everyone knows that's true for HR systems. But we know this is true beyond the HR department as well.

We think employee data isn't just the domain of the HR department—it's a fundamental primitive for business software including, and most especially, for business software well outside of HR.

This fragmented employee data creates a problem for Rippling's customers, which Rippling can solve. And it leads to a related, corollary opportunity for Rippling.

If you're considering joining or investing in Rippling, you should first build conviction in this central thesis about the importance of employee data to business systems across the company.

First, the problem we can solve

Maintaining the correctness, completeness, and consistency of the same employee data across disconnected systems—really, across separate databases—is the reason it’s a lot of work for companies to have many different business systems in the first place.

This problem is most visible when you hire a new employee, because you need to set them up in every system, all at once.

But whenever something changes about an employee, many (and sometimes all) of a company’s systems need to be updated. Because they don’t point to any central authority, they each need to be updated separately and by hand.

This is the underlying cause of a lot of the irreducible administrative work required to run a business.

The solution is a single place where people can make changes to information about employees, which then propagate to all the company’s other business systems.

That’s essentially what Rippling is and what we do.

The administrative burden that Rippling solves is significant. The proof is that when businesses use Rippling, they need half the headcount in HR, IT, and Finance roles compared to what’s required if they use one of our competitors.

Rippling hired an independent research firm to compare businesses that used Rippling and businesses that used other systems using LinkedIn data to measure the number of people in G&A functions at these companies.

At every stage of growth, businesses using Rippling had about half the number of people in HR, IT, and Finance as companies on these other systems.

HEADCOUNT

Total average number of employees in the **HR, IT and Finance** departments

Company size by Headcount	Rippling Customers	Non-Rippling Customers	Headcount Savings
501-1000	24.2	44.9	+20.7
251-500	16.9	29	+12.1
151-250	8.2	17	+8.8
26-150	3	7.6	+4.6
2-25	0.4	1.1	+0.7

Source: Benenson Strategy Group (BSG), an independent research firm, conducted a study from June 10-24, 2022, including 391 interviews of non-Rippling customers with 2-750 employees.
 Rippling headcount data is based on anonymized data regarding over 8,000 Rippling customers and 300,000 employees.
 Non-Rippling headcount data is based on anonymized LinkedIn data from over 111,000 employees from 577 companies.

Second, the corollary opportunity

Broadly speaking, other companies that make business software understand this dynamic.

If they want their software to know about their customers' employees, they must ask their customers to provide that information. And their customers, in turn, need to collect and upload that data when they're implementing this new business software. Clients then need to maintain and update that employee information over time. The more employee data a software vendor demands, the more work it is for those customers to maintain and update the vendor's system.

As a result of this dynamic, most software vendors ask their customers for as little information about their employees as possible. It makes implementations easier, and it reduces the ongoing administrative burden imposed by their system.

But as a result, most business software knows much less about your employees than it ought to know.

If you're building software and you assume you start with all the data about your customers' employees, in the system, you make design decisions about your product that are different from the decisions you make knowing that data isn't available to you.

This gap in your business software's understanding of your company, your employees, their jobs, roles and functions, and their relationships to one another have fundamental product implications across a surprisingly wide array of business software verticals. If you can't encode the nuance of how companies work in your software, you have to hide information behind gatekeepers. If you deeply understand a business, its workforce and how they interconnect, then you can massively increase the degree to which managers can self-serve.

Here are three common examples of weaknesses in point-SaaS applications, because these systems don't sufficiently understand their clients' orgs:

First, it means that most business software is **under-permitted**. Most business software systems don't have role-based permissions. So instead of employees inheriting "just-right" permissions within the system because of their position within the organization (and these permissions changing automatically as the employee's role changes), someone has to click to create these permissions for them. Which means, of course, that very few employees get the "right" permissions or any permissions at all, and the system's capabilities stay concentrated in the hands of just a few people.

Second, most business software has an extremely shallow implementation of **approvals** and workflows. Any approval requires routing within the company, and this routing requires the system to understand the relationships between employees. Most business software with a concept of approvals will understand just the "manager" relationship, i.e. you can choose to require approval from an employee's manager. But there are other relationships that matter: sometimes you want approval from the first person at a "director" level above the employee in the org chart. Or from the VP of their department. Or from their HR Business Partner, or strategic finance associate, or from their site lead. These are all relationships that Rippling understands natively but aren't present in most other business software.

Third, most business software has weak **reporting and analytics**. Most business software systems generate reams of transactional data about employees. But on its own, this data is unintelligible. To turn this raw data into insights about your company, you first have to join it with data about your employees and your organization—information that's missing from most business systems. Once you do that, you can look at your data by department or by manager. You can filter out your interns and contractors, zoom in on your work location in Bangalore, or

see if employees with more tenure behave differently from recent hires. This data transformation—which today requires ETL software, data warehouses, BI tools, and data engineers and analysts—is how companies go from raw data to insights and understanding about their business.

The corollary opportunity for Rippling, then, is to **rebuild** business software across each software vertical, but to embed an understanding of your company's employees in the foundations and tissue of each of these products.

Building in this way unlocks new product capabilities across many software categories, and it's the second part of Rippling's strategy.

The death of point-SaaS and the coming wave of rebundling

I've previously described Rippling as a *compound* software business, to distinguish it from the conventional approach to building SaaS companies, which is to focus on one specific and narrow product. (For a good, quick discussion of compound software companies, [see the first third of this video](#).)

Generally speaking, Rippling's approach—building multiple products in parallel— isn't supposed to work. What's supposed to work instead is building “best of breed” software: one narrow, point-solution SaaS product that does one thing well. We call this approach “point-SaaS,” and it has been the strategy for most business software development for the last 15 to 20 years.

Given this incongruity, it's worth discussing why Rippling's own compound products will beat out point-SaaS competitors.

Compound products have five specific advantages over focused, point-SaaS competitors. Part of the secret to our success is that although we're building a lot of different products, we always win in these same five ways across all of them. Our products are:

1. More deeply integrated with other products in Rippling.
2. More deeply integrated with employee data.
3. Built on a set of middleware or platform components. Because of our multi-product approach, we can take capabilities that are repeated across products

and build them once—but build them much better. When our point-SaaS competitors build things like reports and analytics, permissions, workflow automations, approvals, and more, they bolt it on as an afterthought. We go 100x deeper on these concepts because we’re building them for 30 different products instead of just one. No single point-SaaS competitor can afford to compete with our investment in these shared platform capabilities.

4. Composed of common UX patterns. Our customers only have to learn one set of UX patterns. If they learn how to create reports or build workflows in Rippling or take the time to learn the Rippling query language (RQL), they will have superpowers in any product that they buy from Rippling. Those superpowers will not exist for them if they buy products outside of Rippling. As a result, buyers who invest in Rippling have incentives to single-source software from us.
5. Bundled pricing and contracting. Rippling has important pricing advantages over point-SaaS competitors because we can optimize the cost of our software bundle rather than the price of any one SKU.

This last one is a potent and unappreciated disadvantage of point-SaaS companies.

Because point-SaaS companies can amortize sales and marketing and R&D costs over only a single SKU, they will increasingly be at a pricing disadvantage to compound companies like Rippling. And clients that choose to buy artisanal point-SaaS products will increasingly pay a penalty for doing so.

This is not just a pitch for Rippling. It’s a prediction of how software will be built in the future and how the B2B software industry will evolve over the next decade.

Until 15 years ago, most business software was purchased from a small number of megalopoly business software vendors, companies like SAP, Oracle, and Microsoft.

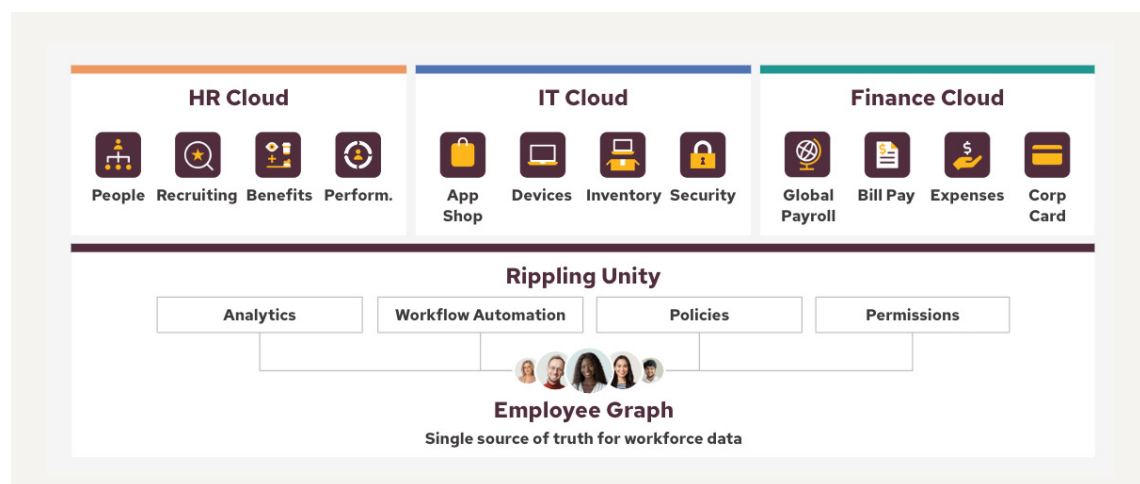
Because these vendors were poorly positioned to rebuild their technology as cloud software, the shift to the cloud created a moment-in-time opportunity for focused competitors to peel off specific features and products from these mega-vendors and turn them into standalone, point-SaaS companies.

But as the cloud software ecosystem matures and the underlying delivery mechanisms like “cloud” and “mobile” grow firmer roots, the overwhelming

advantages of deep systems integration and bundled contracting and pricing will begin to re-dominate.

And then, a new wave of cloud-native mega-vendors is going to emerge. One of these companies, clearly, is Salesforce. I believe that Rippling is another.

EmployeeForce



One way to understand Rippling is to contrast it with Salesforce. Rippling is Salesforce, but starting from employee data instead of customer data.

What do I mean by that? In the same way that Salesforce is not merely a system for building pipeline reports, Rippling is not merely a payroll and HR system.

In reality, Salesforce is a system for managing business processes and workflows, which happens *to be built* on an underlying foundation of customer data.

Salesforce has a series of core platform capabilities that query the underlying customer data in its system—reports and dashboards, a workflow builder, configurable policies and permissions, an object query language in SOQL, custom fields and objects, alerts, and approvals. These can then be strung together and tuned by a client to manage their bespoke business process relating to customers, support, sales, and marketing.

Salesforce is useful to companies both because of this configurable Platform toolset—companies need reports and they need workflow tools—but also because these tools have a built-in understanding of the company's customers.

They know who your customers are, understand the relationships between leads, contacts, and accounts, and know who each account's relationship manager is within your company.

Many of Rippling's platform capabilities mirror those of Salesforce. Over time, we believe that the platform capabilities of the two products must converge even though the applications built out of these platform elements are different.

Rippling's core thesis can be restated as the belief that companies also have a set of business processes and workflows, which requires tools that are similar to Salesforce's—but this other set of business processes and workflows needs those tools to be built on a *different underlying primitive*.

In lieu of Salesforce's outward-facing understanding of who your customers are, this other set of business processes requires an inward-facing understanding of your organization, who your employees are, the job and function they perform within your company, and these employees' relationships to one another.

Rippling is the system for that other, parallel set of business processes.

These two systems—the inward-facing one, and the outward-facing one—are two sides of the same coin.

Competition and Rippling's last-mover advantage

A central difference between Rippling and our competitors is that Rippling competes in multiple **segments**, more **product lines**, and multiple **geographies**.

As a result, it's hard to pin down who our direct competitors are, because those competitors are different depending on a specific intersection of Segments, Product Lines, and Geographies. For a 10-person company in the US evaluating us for payroll, our competitors are likely Gusto, ADP Run, Intuit payroll, or perhaps PEOs like Trinet or Insperity. If instead we are looking at a similarly-sized company in Australia, the competitor might be Employment Hero. In the UK, Sage. For a 500-person company evaluating payroll in the US, we might be competing against Paylocity, Paycom, or UKG. Occasionally, at the very upper end of our market, we are competing with Workday.

Day to day, we tend to compete most viciously with these payroll and HRIS companies. Because payroll and HRIS are the source of truth for employee data

within a company and because employee data is such an important primitive for the rest of Rippling, we are usually (but not always) ripping out one of these existing vendors when we win a new client.

But our competitive set is broader. If we're selling device management software, our competitors might be JAMF or JumpCloud. For expense management software, corporate cards, bill pay, and travel: Brex, Ramp, Expensify, Navan, and Concur. For recruiting software (ATS), we compete with Greenhouse, Lever, Jazz, and most of the all-in-one competitors with embedded ATS systems (Paylocity, UKG, Workday, etc). If we're selling a prospect on our global Employer of Record (EOR) services, we might be competing against Deel, Remote, Papaya, or Velocity Global.

It's unusual for a software business to have such a broad competitive set but Rippling is remarkably successful competing against all of these point-SaaS companies once we're in front of a prospect. See our win rates when displacing incumbent vendors in the table below. These products were all launched within the last 18 months but are replacing point solutions from companies that have been in-market for years.¹

Win rates against incumbent solution

Competitor	Win Rate (S3 NLS / S4 XSell)	Competitor	Win Rate (S3 NLS / S4 XSell)
Spend Management		ATS	
Spend Mgmt Company 1	56%	ATS Company 1	31%
Spend Mgmt Company 2	38%	ATS Company 2	42%
Spend Mgmt Company 3	57%	ATS Company 3	46%
Spend Mgmt Company 4	49%	ATS Company 4	42%
Spend Mgmt Company 5	50%	ATS Company 5	37%
Global Payroll & EOR		Performance Management	
GP & EOR Company 1	51%	Performance Mgmt Company 1	42%
GP & EOR Company 2	56%	Performance Mgmt Company 2	39%
GP & EOR Company 3	70%	Performance Mgmt Company 3	58%
GP & EOR Company 4	60%	Performance Mgmt Company 4	53%
		Performance Mgmt Company 5	33%

¹ **Source:** Rippling Internal Data. Financial figures are under review and subject to change. **Note:** Win Rates are based on situations where we are displacing an incumbent solution (i.e. it excludes greenfield sales). The figures in the table above include both NLS (Stage 3) and XSell (Stage 4). Based on external benchmarking with HR peers and other SaaS companies, we believe these opportunity stages are equivalent to the stages most software companies benchmark their win rates. NLS Stage 3 and XSell Stage 4 are defined as the opportunity has a strong fit, with specific product interest and a demo has been completed—it is intended to qualify a “live deal” where there is an active evaluation by a potential buyer and explicitly excludes initial first calls/demos where there is no active buying process—e.g. a company takes an initial call or demo for a gift card, but has no intent to switch systems. All opportunity information is based on Salesforce data, where we are replacing an incumbent solution and the competitor is tagged by the sales representative. There are situations where we do not have competitor info—the two most prominent reasons are (1) not all opportunities replace an incumbent solution and (2) sales reps do not always note the name of the incumbent competitor. This data also relies upon the information that our sales representatives enter into Salesforce and their pipeline management hygiene—while we enforce this on a best efforts basis, it is likely imperfect.

Because of Rippling's platform capabilities, we only need to tie against our point-SaaS competitors to win. If we can match these competitors on the features that are unique to their product category, we will win on our platform capabilities (such as our analytics suite, role-based permissions, workflow automations, configurable approvals, and custom policies), the deep integration with the employee record, the integration with other Rippling products, and the common user experience that clients have across all Rippling products.

Because of this approach, Rippling has an important “second-mover advantage” in SaaS markets. The more mature the market, the more there is an existing spec for the capabilities we need to have to compete head-to-head with point-SaaS incumbents. We're never going to win on these “head-to-head” features; our goal is always to tie. When we build corporate cards, we're not innovating on the way we issue corporate cards (through Stripe issuing or Marqeta) or the way we scan and extract metadata from receipts (which is mostly a vendor relationship for us today). We're going to win on the capabilities we have that are common to all Rippling products—the integration with the rest of Rippling and with employee data, the platform capabilities, and the common UX described above. But it's easier for us to build a point-SaaS product like “corporate cards” when the market has already settled on what “product-market fit” looks like for that particular vertical.

Because of this, Rippling has an advantage when going after markets that are mature or even commoditized. The market expectations are clear and stable, and we know exactly what we need to build. And when we build it, Rippling's offering is paradoxically the only unique product in a sea of commoditized, undifferentiated ones. Our products, built from the Rippling platform Lego blocks, integrated with the rest of Rippling, and able to draw on a deep understanding of your org and employees, have capabilities that point-SaaS competitors cannot match. The more commoditized the market, the more Rippling's offering will stand out and become the “default buy” for our customers.

One way to think about this is, “Jeez, Rippling competes with a lot of companies and in a lot of different markets...”

But Rippling competes against such a broad (and expanding) set of companies, that in some sense it suggests we're approaching the market in a different way than any of these other companies, and as a result, none of them are the true long-term competitors in our market.

Rippling's goal is to decompose all business software into its underlying constituent elements and then rebuild this software across each vertical out of these common lego blocks. So, yes, in each software vertical, we have a different set of competitors.

But our long-term competition is with companies that share our point of view that business software should be built in this particular way—companies that believe in building many thin applications on top of thick platform layers, with data layers underneath. There are four companies in particular that seem to think about the world in this way—Salesforce, Microsoft, Oracle, and ServiceNow. None of them are direct competitors to Rippling today, but if you believe that point-SaaS is doomed, then what will replace it will probably look a lot like those four companies.

Seizing the Means of Distribution

Compound software businesses have inherent CAC and terminal operating margin advantages over point-SaaS competitors.

Compound software businesses, including Rippling, have:

- **A longer and deeper R&D investment phase, eventually followed by better R&D efficiency.** Up front, there is simply more to build. Because Rippling is building multiple business lines in parallel, the engineering investment required is a multiple of what you'd expect for a point-SaaS company.

Instead of thinking of Rippling as a single business at \$██████⁺² of ARR, think of it as a collection of a dozen or more businesses, each of which are still sub-scale. They're each on a much steeper portion of the growth curve than you'd expect from our total revenue and are much further from hitting any kind of saturation or exhausting their TAM, but they're also earlier in the R&D lifecycle and still require substantial up-front investment to build the product.

In our 2024 operating plan, we expect to spend 46% of our revenue on R&D on a cash basis. Adding in stock-based compensation,³ we expect to spend between 67% and 82% of our revenue on R&D, depending on whether you value this stock at our 409a or last preferred round valuation.

This R&D spend is what's most anomalous about Rippling's finances today.

² **Source:** Rippling Internal Data. Financial figures are under review and subject to change. **Note:** Data as of Mar-2024.

³ **Source:** Rippling Internal Data. **Note:** Figures represent our 2024 Board Plan. Stock-based compensation expense includes both options and RSUs. RSU expense is calculated based on time-vested shares * the 409a value or preferred value at the time of grant.

While our R&D spending as a percent of revenue is coming down over time, it's multiple standard deviations away from the mean in comparison to our public peer group.

It's particularly anomalous when you compare Rippling to other HCM companies. Public HCM companies invest less in R&D, as a percent of revenue, than any other major software category. As of Feb 2024,⁴ Paycom spent only 10% of revenue on R&D. Paylocity, 11%. Paycor, 9%. Ceridian, 13%. UKG spent 17% in 2018, the last year before they were taken private.

While Rippling's R&D investment is unusually high as a percent of revenue and will need to come down as a percentage of revenue over time, we believe our HCM competitors have been *underinvesting* in R&D for years. We are going to make them regret this misstep.

We believe the saving grace of the upfront R&D expense required to build a compound software business is that at some level of scale, compound software businesses turn a corner on R&D investment. This is both because the individual products get to maturity and their revenue continues to grow as the R&D cost required decelerates, but also because of the effects of *platform* R&D investments. Over time, more and more of the code required to build a Rippling application is in shared services teams that we collectively refer to as "platform." These teams build capabilities, such as analytics, workflow automations, permissions, approvals, and more, can be re-used by every application development team. As this underlying platform's capabilities grow, less and less R&D is required to build or maintain individual applications.

- **A larger overall TAM.** It should be obvious that compound software businesses, because they compete in many parallel markets, have larger TAM than point-SaaS competitors.
- **Better CAC payback and sales & marketing efficiency.** Abnormally efficient sales and marketing, and what that implies for long-term operating margins, is the secret weapon of compound software businesses.

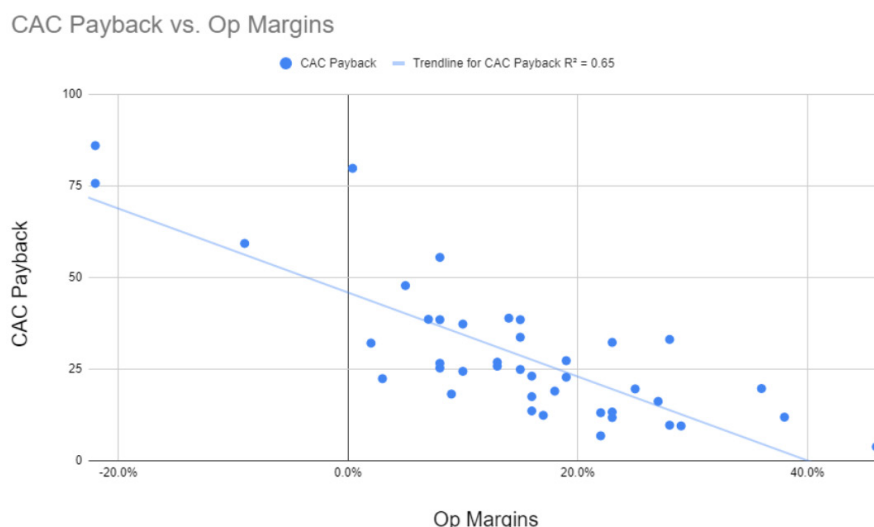
It's a lot harder to acquire a new customer relationship (a new logo) than it is to sell a new, adjacent product to a happy customer.

But almost all SaaS companies are operating in impossible mode, selling a single product to a brand new customer every time. Compound software

⁴ **Source:** CapIQ. **Note:** All peer metrics based on the most recently reported last twelve months (as of 02/20/24), except UKG, as noted. These metrics exclude stock-based comp.

businesses can view the expensive new logo sale as an investment in building a foothold into the customer that we can use to deliver a parade of other products over time, with much lower CAC payback periods.

This is a meaningful advantage. Terminal operating margins in software businesses are strongly inversely correlated with CAC payback periods, with an R-squared of 0.65:



Source: Based on SaaS benchmarks from Meritech Capital. **Note:** LTM Non-GAAP operating income percentage of revenue. CAC Paybacks based on current quarter implied net new ARR, current quarter non-GAAP gross margins and prior quarter non-GAAP sales and marketing expense. Based on the following companies: AppFolio, Asana, Atlassian, AvePoint, Bill.com, Blackbaud, Clearwater, Cloudflare, CloudStrike, CS Disco, Datadog, DigitalOcean, Doximity, Enfusion, Freshworks, HubSpot, IntApp, Lightspeed POS, Monday, MongoDB, nCino, Okta, Palantir, Paycom, Paycor, Paylocity, Procore, Salesforce, SEMrush, ServiceNow, Smartsheet, Snowflake, Sprinklr, Squarespace, Tenable, Twilio, Veeva

The average public SaaS company has a 28-month CAC payback period and a 10% operating margin as of March 2024.⁵

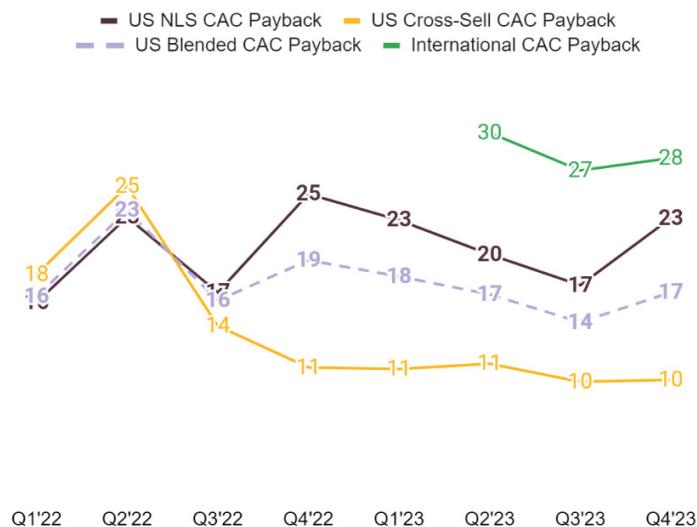
Rippling currently has 17-month CAC paybacks,⁶ but what this masks is that Rippling's CAC payback period for cross-sell is just 10 months.⁷ And if you only burden cross-sell CAC with our direct, marginal costs for cross-sell (and exclude its pro-rata share of underlying marketing costs), the CAC payback is only 8 months.⁸

5 Source: SaaS benchmarks from Meritech Capital. **Note:** LTM non-GAAP operating income percentage of revenue. CAC Paybacks based on current quarter implied net new ARR, current quarter non-GAAP gross margins and prior quarter non-GAAP sales and marketing expenses. Data as of Mar-2024.

6 Source: Rippling Internal Data. Financial figures are under review and subject to change. **Note:** Figures reflect FY23 CAC Payback (Feb'23 - Jan'24). CAC includes the full costs of sales, account management, and marketing (both payroll and marketing budget), as well as the net cash loss from IM and Pro Svcs teams (IM + Pro Svcs 1x bookings, less payroll costs). The gross profit added is calculated based on New ARR from (i) Sales and (ii) Account Management, multiplied by the company's consolidated gross profit % excluding IM + Pro Svcs costs (which is put in CAC).

7 Source: Rippling Internal Data. Financial figures are under review and subject to change. **Note:** Figures reflect Cross-Sell CAC payback in FY23 (Feb'23 - Jan'24).

8 Source: Rippling Internal Data. Financial figures are under review and subject to change. **Note:** Figures reflect Marginal Cross-Sell CAC payback in FY23 (Feb'23 - Jan'24). Marginal CAC payback includes the cost of AMs, cross-sell PAEs, SCs, IM & PS. It excludes the cost of cross-sell Marketing headcount, RevOps, Enablement, and VP+ Leadership.



Source: Rippling Internal Data. **Note:** CAC includes the full costs of sales, account management, & marketing (both payroll and marketing budget), as well as the net cash loss from IM and Pro Svcs teams (IM + Pro Svcs 1x bookings, less payroll costs). Expenses are counted within the quarter, except Marketing spend is from the prior quarter. The recurring gross profit added is calculated based on New ARR from NLS and Cross-Sell, multiplied by the company's consolidated gross profit % (excl. IM and Pro Svcs costs, which are in CAC). Excludes reseller and revenue share pricing changes. International ARR includes both core SaaS ARR closed by in-country reps and the Global ARR attached to int'l deals. Cross-sell includes AM cross-sell and Spend & Global AE cross-sell.

It's this inherent CAC advantage that will drive the current cycle of rebundling and away from point-SaaS companies.

Our CAC advantage suggests how tantalizingly far out Rippling's boundaries might be. If you ask "How much further do you keep going, and when do you stop building new products?" the answer really must be, "When we reach software verticals where we no longer have cross-sell CAC advantages over point-SaaS competitors."

If software is eating the world, Rippling is going to follow behind, eating software.