Rippling Memo

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RIPPLING

Introduction

Rippling's premise is that businesses should have a single system for employee information across every department within the company. That's not the way it works today.

OVERVIEW

Most businesses have dozens of systems that maintain a list of their employees, and for the most part, none of these systems talk to each other or to any central system about who these employees are.

Sometimes, these business systems only need to know a little bit about each employee — maybe just each employee's username, and a password, so that the system can authenticate employees when they log in. Other systems go deeper, and need to know each employee's department, manager, salary, home address, and more.

Whenever something changes about an employee, many (and sometimes, all) of these systems need to be updated, and because they don't point to any central authority, they each need to be updated separately and by hand.

We believe that the effort to maintain this fragmented employee data across all of a company's business systems is, secretly, the root cause of almost all the administrative work of running a company.

There should be a single system of employee data that sits underneath every other business system. Companies and their employees could come to this one place, and make changes to employees in this one system, and that system would handle the propagation out to every other business system.

That's what Rippling is, and that's what we do.

OUR STRATEGY

Our strategy, in a nutshell, has 3 parts:

Part I: If you can be the system of record for employee data, you can build a really successful business.

Being the system of record for employee data is lucrative because this system has **platform power** that can be used in other business software and services categories that need to access this underlying employee data.

At one extreme, if you're the system of record for employee data, you can build adjacent products with exclusive access to your system. That's what we did at my last company, Zenefits. Zenefits was a system of record for employee data within the HR department, and in order for clients to connect their insurance up to Zenefits, they had to make us their insurance broker.

Because this connectivity made life easier for the client, most Zenefits clients chose to make us their broker. But we could have arbitrarily done this in any number of other areas with a strong tie to the employee record, besides insurance.

And, you can take a different approach, which we prefer at Rippling — you can partner broadly with other companies and be a reseller: you can allow other companies to operate in your system, you can bring them new clients, and in exchange, they pay you a cut of their revenue.

This belief — that the system of record for employee data is valuable — is the least unique, and probably the least controversial, part of our strategy.

Almost every other HRIS and payroll company views the world this way. ADP is the largest payroll company in the US by market cap, and they make most of their revenue not selling payroll — but by selling a host of ADP add-on services (time tracking, performance management, benadmin, etc) that happen to plug in to the core ADP payroll system. Certainly Zenefits, Gusto, and Namely also count this as a part of their strategy.

Outside of HR, this is also Microsoft's strategy in their enterprise business segment. Microsoft's Active Directory is also a system of record for employee data — just one that happens to be used by the IT department instead of the HR department. Microsoft brings Active Directory into a company, and then upsells the company on other Microsoft services — Exchange Server, Sharepoint, Windows PCs — that plug cleanly in to Active Directory.

So, many companies agree that being the system of record for employee data is valuable, and Rippling is not the only company gunning for this prize. The question then becomes, how do you "win" at being the system of record for employee data?

Part II - Onboarding Software makes you the system of record for employee data.

There is a button you click in Rippling to hire an employee. As a hiring manager, you tell us the new employee's Salary, Manager, Department, Work Location, and a few other things.

Rippling then reaches out to the new hire, generates their paperwork for electronic signature, and then asks the employee for details like their Social Security Number, Home Address, and Bank Account Number.

These hiring and onboarding flows are the way this new employee object is assembled. Rippling is collecting each of the employee attributes that make up this employee record, we are writing them to our database, and then we are metering them out to all of our clients' downstream business systems.

By virtue of being the **ingestion** point for this employee data, and because we are **upstream** of everyone else in this process, Rippling is the system of record by definition. Because every other business system is receiving its information about the company's employees from us, we become the de facto source of truth.

Stated slightly differently: if a new hire were to mis-enter their Social Security Number into Rippling, it would be wrong everywhere — in payroll, with insurance carriers, with the 401k provider, etc.

As a result of this, we are uniquely fanatical about employee onboarding software. For our competitors, employee onboarding tools may be useful features, helpful to clients. But for us, onboarding software is the only thing that matters, because if you win at onboarding, you win everything else.

Eventually, though, if we're successful, other companies will come around to our point of view on the central role this software will play in the B2B ecosystem, and will refocus their own efforts to develop employee onboarding software. The question then becomes, "how do you win at employee onboarding software?"

Part III - To win at employee onboarding, you can't be monogamous to any single department or functional area.

Many companies maintain informal checklists of the tasks they need to complete when hiring a new employee. To win at onboarding, you need to automate more of a company's new hire checklist than anyone else.

But, these onboarding tasks cut across many different departments — it's our experience that about 30% of a company's onboarding tasks are HR-related. About 40% are IT-related. And there's a smattering of Finance, Legal, and Facilities-related tasks that need to be completed for every new hire, as well.

If your company's mission is to make HR software, or to build software for the Finance department, or the IT organization, you can only solve a portion of this onboarding problem — because the onboarding pain that businesses have isn't specific to one department or functional area.

To effectively solve employee onboarding, you have to orient your product around employee lifecycle events — getting hired, getting a new job or role, moving to a new address, getting promoted, leaving the company — and follow the downstream implications of these lifecycle events wherever they lead.

This means you need to have tentacles into all of these different departments and functional areas, and all the different 3rd party systems they use. If you build your software for one particular buyer or department, you will eventually lose to the company that solves the whole problem.

Onboarding Sidebar

It's worth noting that the term "onboarding software" is used to mean different things by different companies.

Some companies have built project management apps for HR that assign out tasks and track completion whenever someone joins the company. These apps are sometimes called "onboarding software," but they bear no relation to the product we have built, because they lack any downstream systems connectivity.

As a result, they're both less useful to the employer (these apps can assign you work, but they can't do it for you), and strategically less interesting (without downstream systems connectivity, they are no longer a source of truth for employee data).

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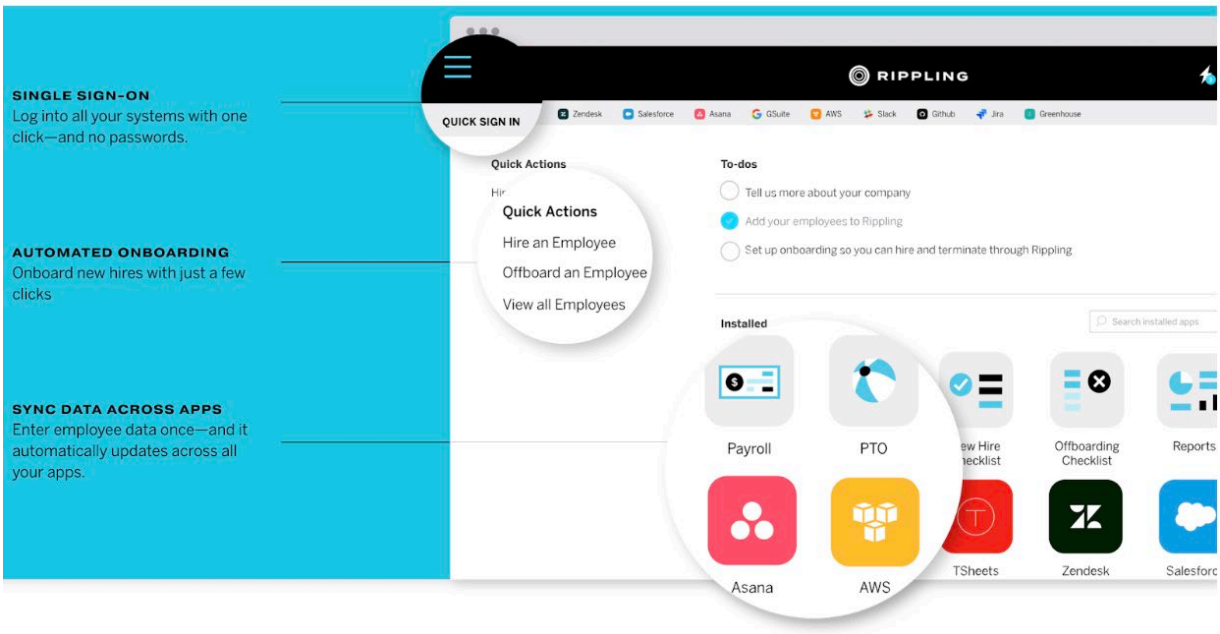
Product Overview

The best way to understand our product is to see it. We encourage you to get a demo of the product from us or, failing that, visit our marketing website at www.rippling.com, which gives a good high-level overview.



RIPPLING IS A HYBRID OF THREE DIFFERENT SOFTWARE CATEGORIES:

- An all-in-one payroll, benefits, and HRIS system.
- An "Identity" / SSO / Password manager system, akin to Okta, OneLogin and OnePassword.
- An endpoint device management system, akin to JAMF and similar systems for Windows PCs.

On the surface, this is a weird combination. It makes sense only because these three systems are each hubs for employee data within a company.

HR systems' connection to employee data is obvious. But it's not immediately clear how IT systems are tied to the employee record.

IT's connection to the employee record is that IT security is ultimately about controlling systems access — who should have access to what systems and software within your company? How should those users be configured within those systems? What level of permissions should they have?

Those questions are, in turn, really about 'who are your employees?' and 'what is their role or level or function in your organization, and therefore what type of access do they need to do their job?'

Those questions — questions which underlie a great deal of the daily administrative work performed by IT professionals as they set up and configure accounts and computers and systems — are fundamentally questions about the employee record.

Stated differently, Okta sometimes describes their category as "Employee Identity." But, we believe this name is, for Okta, aspirational at best. Okta's actual product is Single-Sign-On and password management. Any true system of employee identity — going

back to the original meaning of the word "identity" — would be inseparable from information about each employee's role, department, and function within a company. In other words, a company's HR data.

One small example of this:

In many companies, IT is responsible for maintaining company email lists. A hypothetical company, Acme Co, might have 56 people on the email list 'engineering@acme.com.' Current IT systems will all treat the 56 people on the list as "users," without understanding anything about their underlying role within the business. But these aren't 56 random individuals! They're engineers, in the engineering department.

If you could speak to your IT systems in terms of HR concepts like someone's department, or role, or work location, you could just add that department to the email list. And this, in turn, would dramatically simplify the administration of those systems.

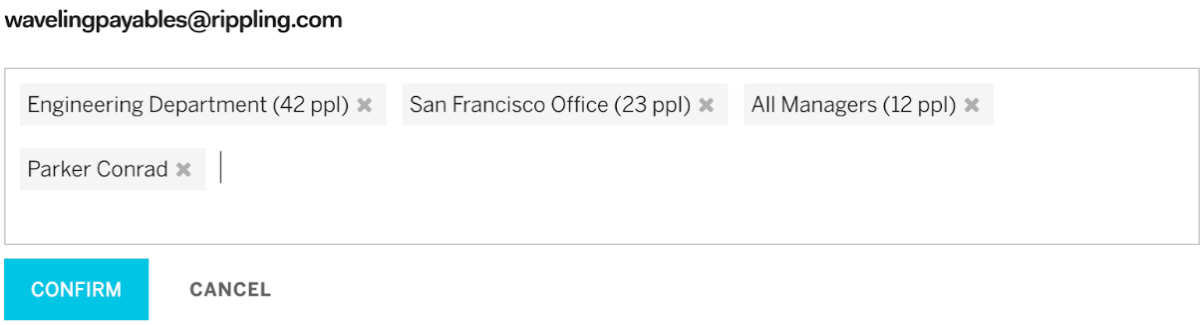
One of my favorite parts of a Rippling demo is when I show prospects how you can add not only individuals, but also HR concepts like the "Engineering Department," or a particular work location, or all managers in the company, to an email list in Rippling:

The neat thing about this is that Rippling isn't just going back and adding all of the individuals in those buckets to that email list in GSuite or Office365. Rippling will also maintain the fidelity of that data going forward — so that the next time you hire an engineer, or the next time someone gets promoted to be a manager, they're going to be added to that email list.

And, taking that one step further: When you hire someone in Rippling and you tell us this person is in the engineering department, that changes everything about how Rippling sets them up in your systems:

It changes what systems they'll have access to — AWS and GitHub perhaps, but not Salesforce. It changes what email lists they are subscribed to. It changes what software is installed on their computer.

And when someone's role within an organization changes, Rippling isn't just changing payroll and HR systems — we're reconfiguring the systems they have access to, the email lists they are subscribed to, and the software and level of access they have on their work computer.



Competition

OVERVIEW

As mentioned previously, Rippling is a hybrid of three different software categories:

- An all-in-one payroll, benefits, and HRIS system
- An "identity" / access management system
- An endpoint device management system

This also means that Rippling competes with three very different types of companies. Not every deal involves all three components — some deals are IT only, some deals are HR-only and of course many deals are both.

COMPETITOR BREAKDOWN

- On the payroll and HR side, we compete against Gusto, Zenefits, Namely, ADP, Paychex, and other similar companies. If a client chooses to use Rippling on the payroll and HR side, we are almost always replacing one of these systems.
- On the identity side, we compete against Okta, OneLogin, LastPass, OnePassword, and similar companies. We're much less likely to be replacing one of these systems — most companies we sell to haven't purchased them yet.
- On the device management side, we compete against JAMF (for mac), Microsoft (for PC management), and a few newer, but smaller, competitors. As with Identity systems, we're much less likely to be replacing one of these systems — most companies we sell to haven't purchased them yet.

There are ways in which Rippling wins or loses going head to head against any individual one of these competitors (for what it's worth, on the HR side, we believe our product is superior to every other system on the market).

But the larger dynamic is that each of these competitors thinks of themselves far more narrowly than Rippling does: they make HR software, or Identity software, or device management software. It's embedded in their culture and mission statements and taglines. These companies are going to stay in their swim lanes.

They might partner — but these partnership will always be thin tethers connecting otherwise unrelated systems.

Performance to Date

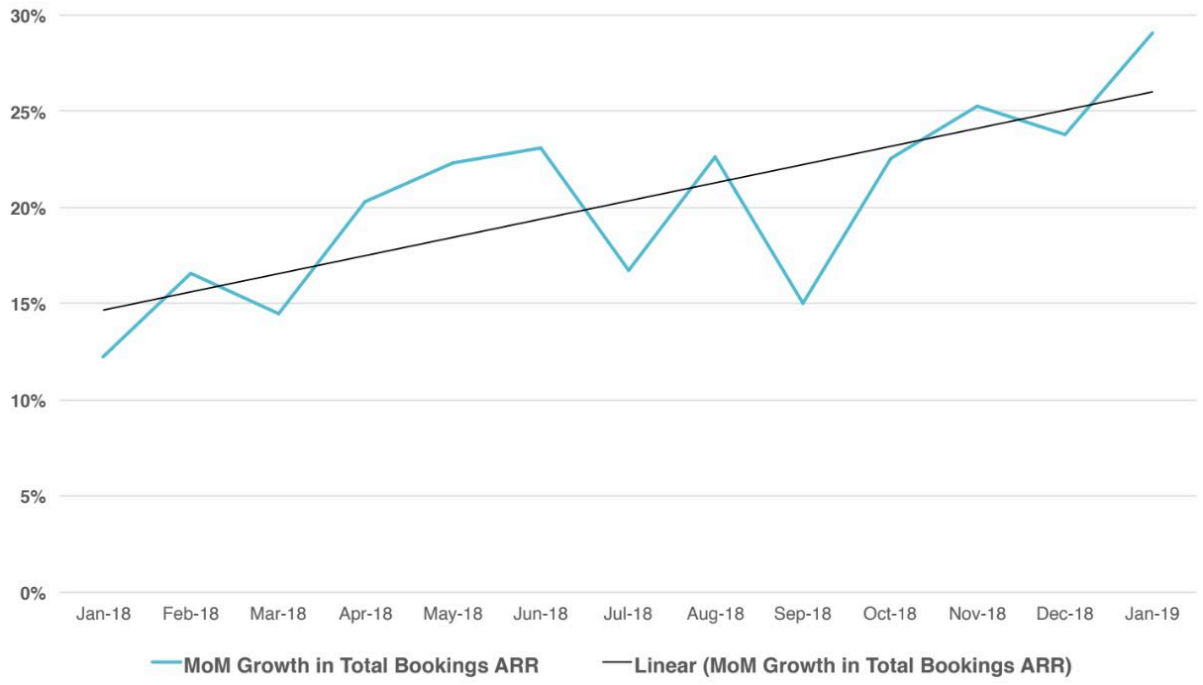
OVERVIEW

We launched our benefits administration product around May 2018, and most of our sales metrics improved dramatically at that time. Internally, May 2018 was the point where we shifted our focus from product expansion to revenue growth.

Rippling has grown unusually quickly since that time, and we closed January 2019 with $XXmm in ARR. We've averaged 20% Month over Month growth since January 2018, but that growth rate appears to be accelerating — in the last 4 months, our average growth rate was 25%, and in January it was 29%. The time it takes for our revenue to double recently dropped from four months to three.

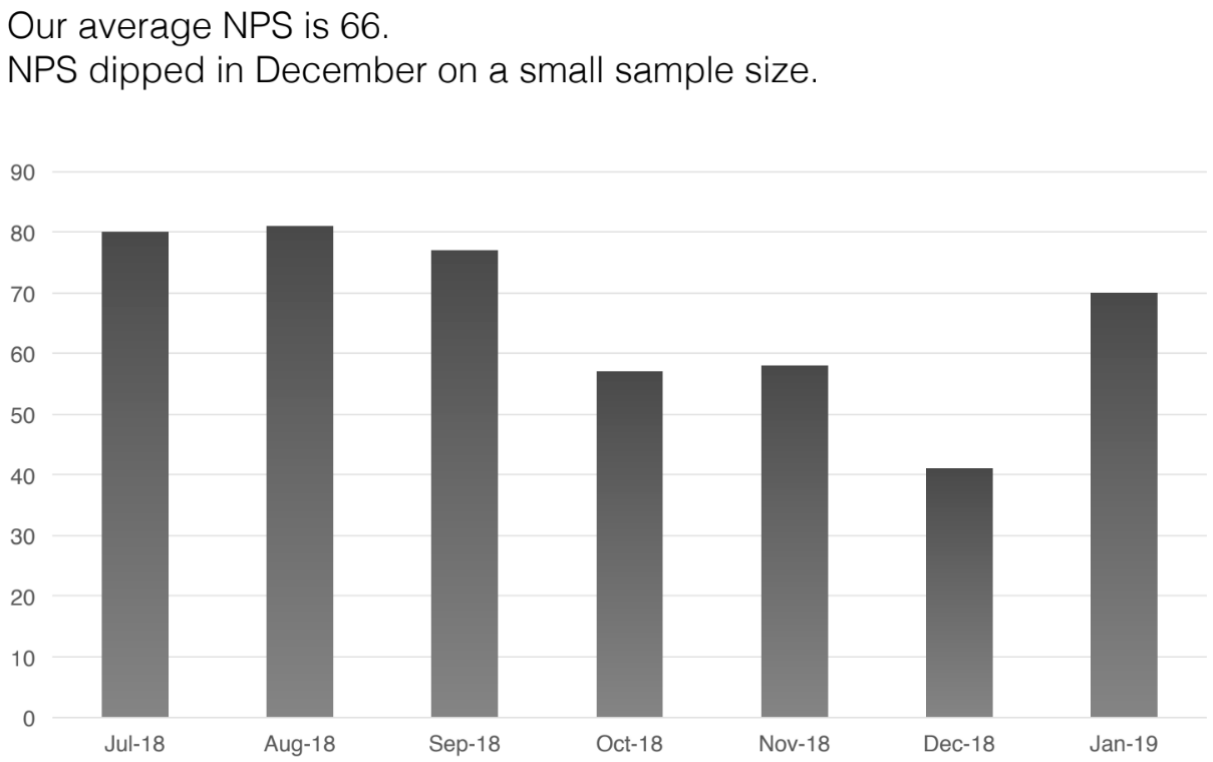
While many startups have revenue graphs that go up and to the right, it is much less common for a graph of month over month growth rates to do the same:

ARR GROWTH



NPS SCORE

Equally important is that this growth has not come at the cost of client satisfaction. Our Net Promoter Score in January was 70, and has averaged 66 over the last several months:



R&D INVESTMENT

Building something like Rippling isn't cheap. As you'll see if you take a demo, the product surface area is large. To hit our MVP, we've had to (re)build a payroll, benefits, and HRIS system that took companies like Zenefits, Gusto, and Namely years and tens of millions of dollars to build. And, we've had to build versions of Okta, OnePassword, and JAMF alongside it.

To do this, we've invested in a great deal of up-front R&D. For most of the last two years, Rippling was a company of almost entirely engineers (there are just over 40 today, or roughly 2/3 of our headcount). It's only recently that we've been growing the sales team.

The downside of this is that building something like Rippling wasn't cheap, and the company's total OpEx burn to date — roughly $XXmm — is more substantial than most startups as a result.

However, we believe that our growth rates demonstrate that our bet was essentially correct — we've built the right product, one that customers want, and we're now winning deals against much larger and more mature companies that have spent a lot more to get to where we are.

Our gross margins show that the product is software end to end, and our sales and marketing ratios (magic number, etc) show that this growth is based on sound fundamentals.

Why Now?

I know this is a popular question for some firms so I'm including answers below, but the simple truth is that I think Rippling could have been, and should have been, built seven years ago. But it wasn't. So, we're building it now. With that caveat, here are some reasons it's a bit easier today:

THE PAIN IS INCREASING

Five years ago, the sales organization at Zenefits mostly used just one system: Salesforce. Today, most SaaS sales organizations are probably closing in on 10. Internally at Rippling, we use Salesforce, but also Zoom, Calendly, Outreach, Gong, Intercom, and Marketo. Add in the marketing team, and there's probably another dozen or so.

As a result, there's now a systems administration headache in the sales department that didn't exist previously. Someone in the sales department — the VP of sales, or sales ops — needs to add new hires to each of these systems. If someone gets promoted from SDR to Account Executive, their access needs to be reconfigured across these systems. And if you don't shut off access immediately when someone leaves, you risk leaking sensitive customer information.

In some ways, the deadweight loss from the SaaS revolution is this increasing systems complexity. The more new services there are, the more you need something like Rippling to sit underneath them and tie them together.

THIS IS THE LOGICAL NEXT LEAP IN HR TECHNOLOGY

Zenefits was the first company to market "All-in-one HR." By combining previously-disconnected systems for payroll, benefits, and HR, Zenefits gave you a button to hire someone, and they were automagically set up in all your different HR systems. Regardless of Zenefits' ultimate outcome, we were right about the market. This market positioning (and to a lesser extent the product) was largely copied by others — Gusto, Namely, ADP, and Paychex all now describe themselves as "All in one HR."

But the pain point that Zenefits solved (the single onboarding flow for all your HR systems) isn't unique to the HR department. Now that everyone is All-in-one-HR, the logical next step is to extend this concept across the entire company, pushing outside the boundaries of the HR department.

SOME MARKET EVOLUTION MADE RIPPLING'S PRODUCT EASIER TO BUILD

- Okta's success in the enterprise market has led to many companies building SAML and user API endpoints we were able to plug in to, to get hundreds of integrations live without the need for slow-moving partnerships.
- It's easier to build a payroll system than it was 5 years ago because you can use off-the-shelf tax engines sold by XX and outsource tax-filing and payment to vendors such as XX. It's also easier to build benefits administration software because of vendors like XX and XX. (At Zenefits, we had to essentially build XX and XX in order to manage insurance — now those pieces can be vendor relationships).
- Very high bar for MVP—you need to build a lot of product for Rippling V1. You need to hire a lot of engineers, and raise a lot of seed money up-front for the build stage. I would not have been able to finance this company the first time around. Additionally, given this product-surface-area problem, React and API-first development make it easier to build a large-surface-area product and scale the engineering team horizontally with less overhead.

Network Effects & the 'Supermarket for SaaS'

RIPPLING IS NOT AN HR SYSTEM

Rippling is not an HR system — we call it an Employee Management System to distinguish it from HRIS systems, precisely because we think the problem we solve is much broader than HR, and the right system to solve this problem is a level down in the stack from an HR system, or even the HR department itself.

We think every company that currently has a payroll system would be better served by an Employee Management System, instead — one that integrates broadly to manage employee data across the company. Over time, if we're right, perhaps markets will shift in this direction.

It's worth asking: "How will the market for employee management systems be different than the one for payroll and HR software?"

One key difference is network effects.

Today, ADP is the largest payroll company in the United States. But the market is fragmented. ADP only has about 15% - 20% market share, and there are tens of thousands of payroll service bureaus. That's because there's no self-reinforcing advantage to being the market leader — nothing about ADP's position as the market leader makes my experience as their client any better.

That is, in part, because ADP views their world narrowly. In ADP's world, there are only 7 or 8 systems that abutt payroll and HRIS — things like time tracking, performance management, benefits administration, and retirement.

But an employee management system has many more adjacencies than a payroll system — probably 70 or 80 thousand of them.

This introduces a different dynamic — one where any market leader has swiftly compounding advantages over the other competitors in the space. The company with the most integrations will get the most customers, because clients will naturally choose the product that can connect with the most of their current and future business systems, and the company with the most clients will get the most integrations — because 3rd-party engineers can only build and support apps in a limited number of systems and will naturally let market share guide their decisions on where to build.

The effect of this shift is similar to how the introduction of smartphone app stores led to rapid concentration of market share in the handset industry. This new market for Employee Management Systems will be much more concentrated than the one for payroll software: perhaps the market leader has 60% market share, and the number two player has 30% market share, and everyone else is fighting of the remaining 10%.

As a result, the market leaders for employee management systems could be successful on a much larger scale than even the most successful of today's payroll and HRIS companies.

The bull case for Rippling is that we could be one of them.

RIPPLING METRICS • PLACEHOLDER DATA • PREPARED FOR VC FIRM X

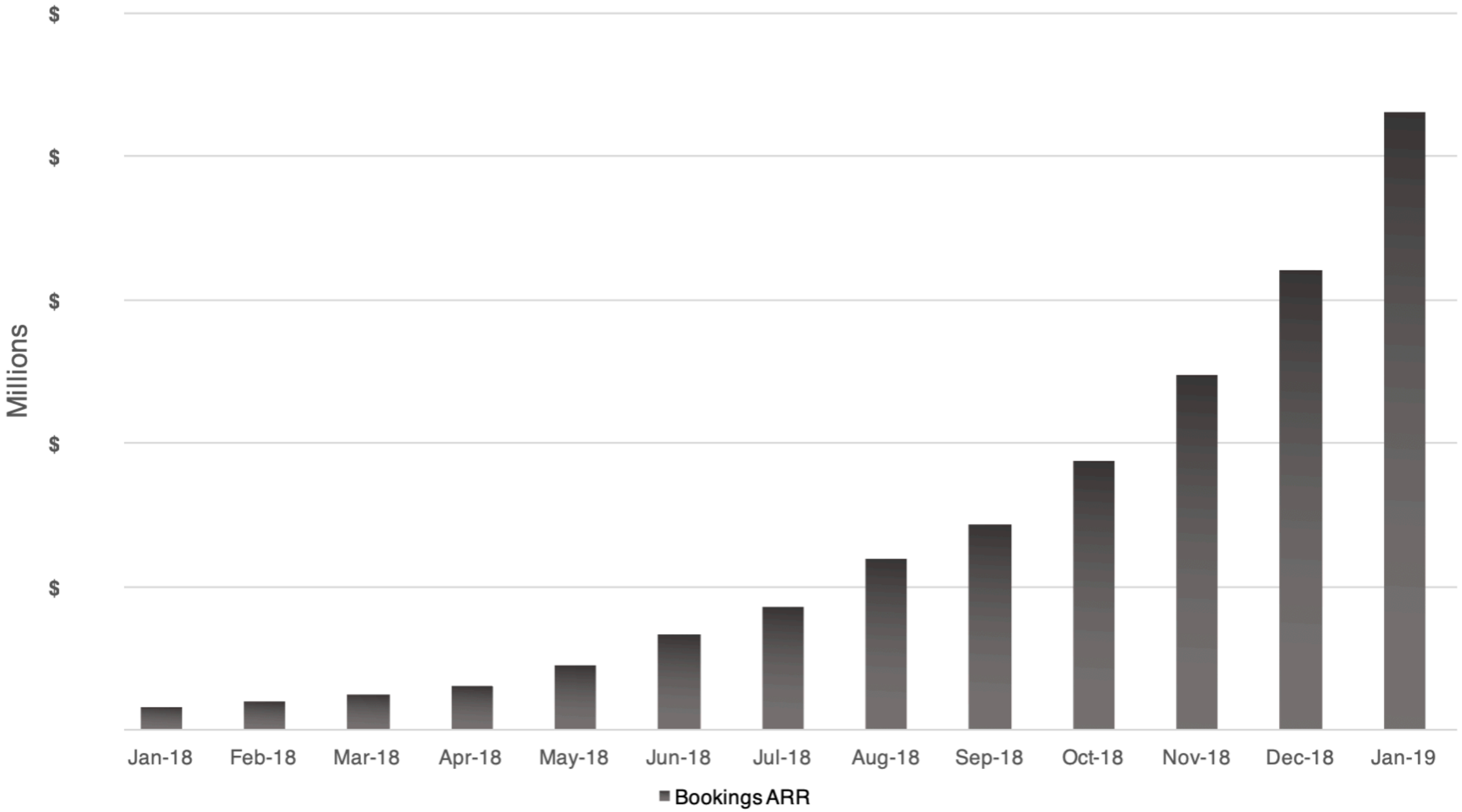
KPIs

JAN 1, 2018 - FEB 1, 2019

Total ARR	$X
Last 4 Months MoM Growth	X%
YoY Growth	X%
Expanding Cohorts	X% in Month 12
Average NPS Score	X
Sales Rep Payback	X Months

BOOKINGS ARR

Our total ARR grew X% between Jan ‘18 and Jan ‘19.



ARR GROWTH RATES

COHORT ANALYSIS

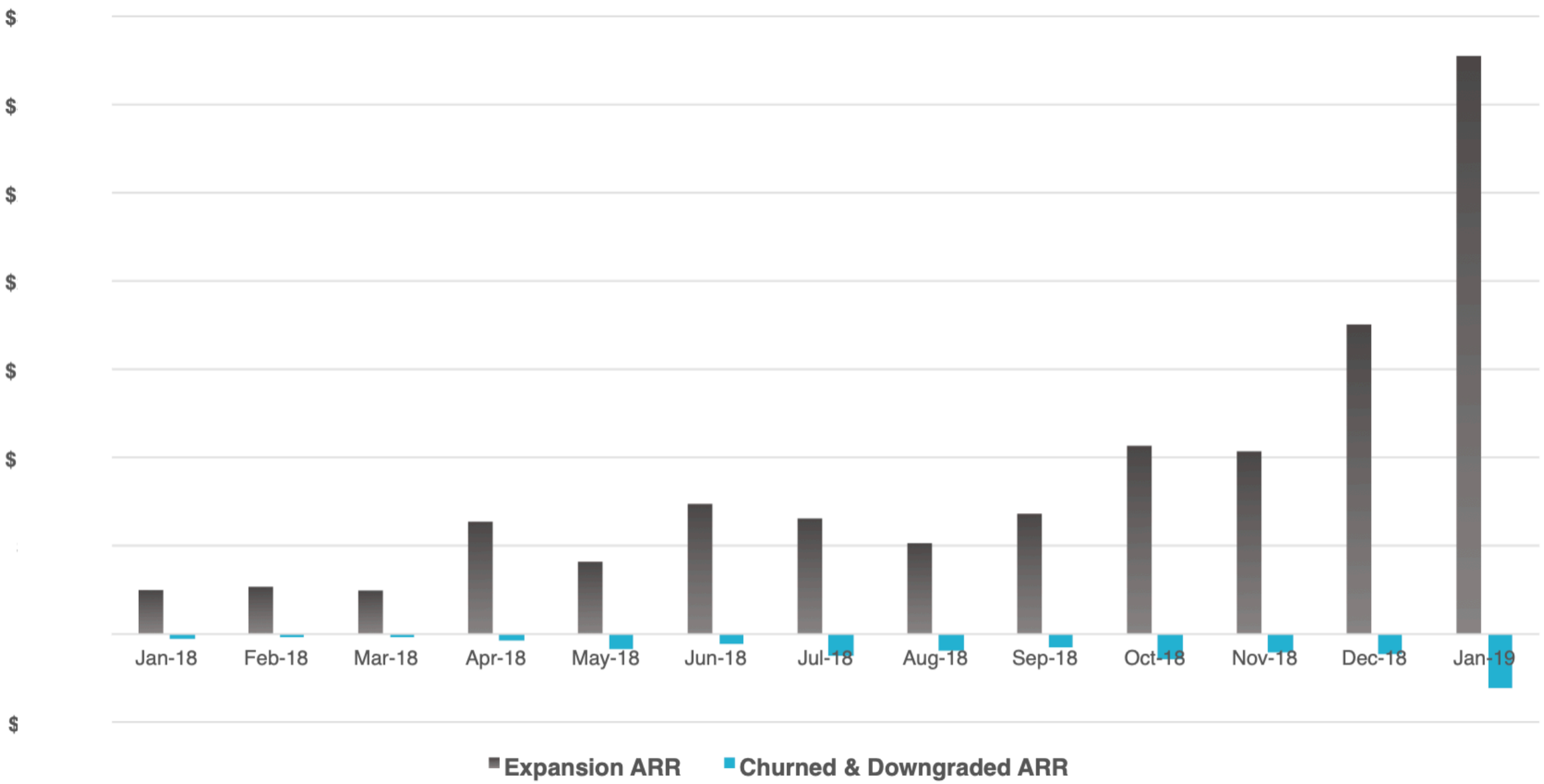
Our cohorts show expanding revenue, also known as “net-negative churn.”

% of Retained ARR in Lifetime Month

Booking Cohort	0	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19
Jun-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%
Jul-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	
Aug-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%		
Sep-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%			
Oct-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%				
Nov-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%					
Dec-17	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%						
Jan-18	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%							
Feb-18	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%								
Mar-18	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%									
Apr-18	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%										
May-18	X%	X%	X%	X%	X%	X%	X%	X%	X%											
Jun-18	X%	X%	X%	X%	X%	X%	X%	X%												
Jul-18	X%	X%	X%	X%	X%	X%	X%													
Aug-18	X%	X%	X%	X%	X%	X%														
Sep-18	X%	X%	X%	X%	X%															
Oct-18	X%	X%	X%	X%																
Nov-18	X%	X%	X%																	
Dec-18	X%	X%																		
Jan-19	X%																			
Weighted Avg	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%	X%

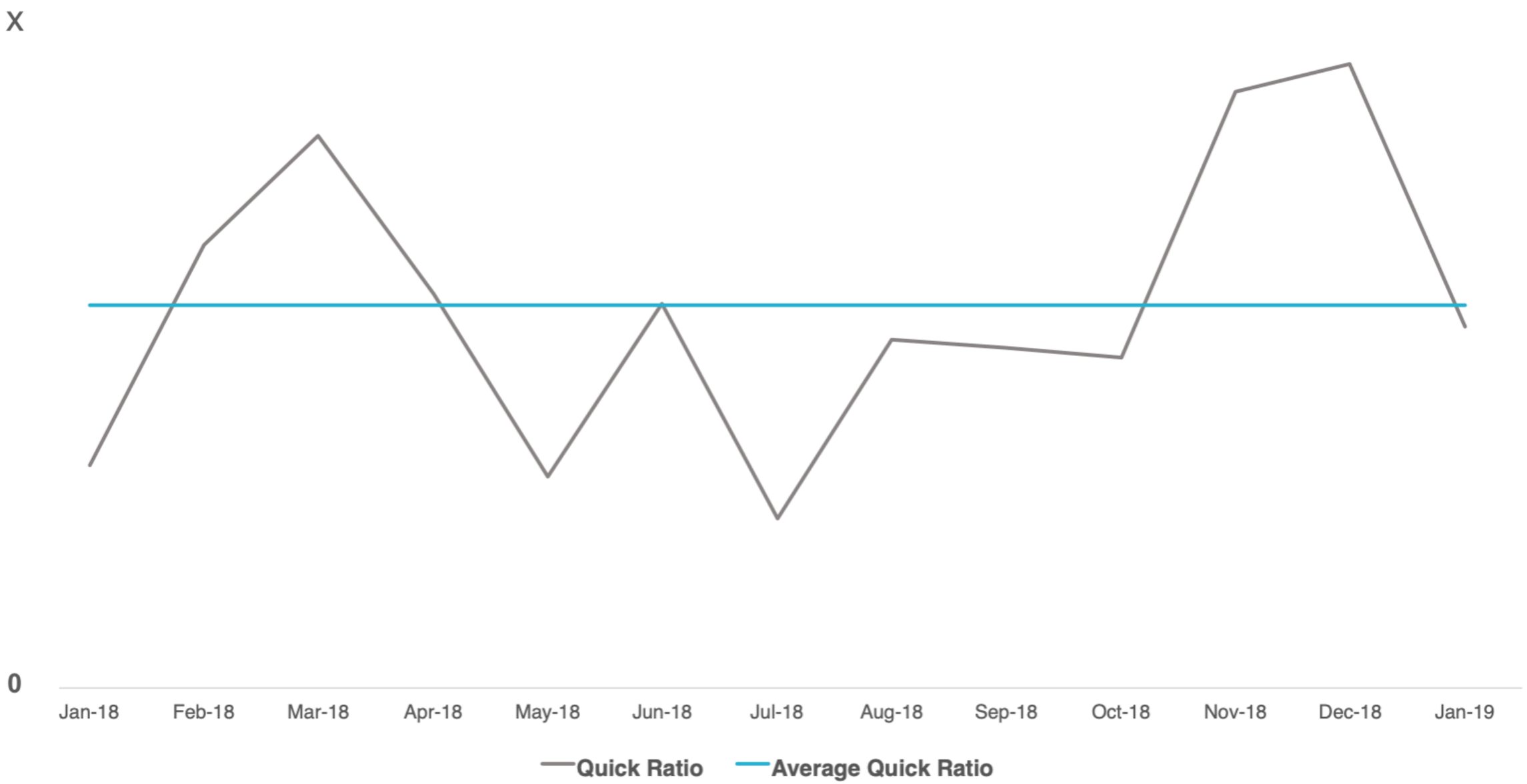
EXPANSION ARR

Expansion ARR exceeds churned and downgraded ARR, due to very low customer churn and product line expansion.



QUICK RATIO

High quick ratio is a result of expansion revenue greatly exceeding contraction revenue.

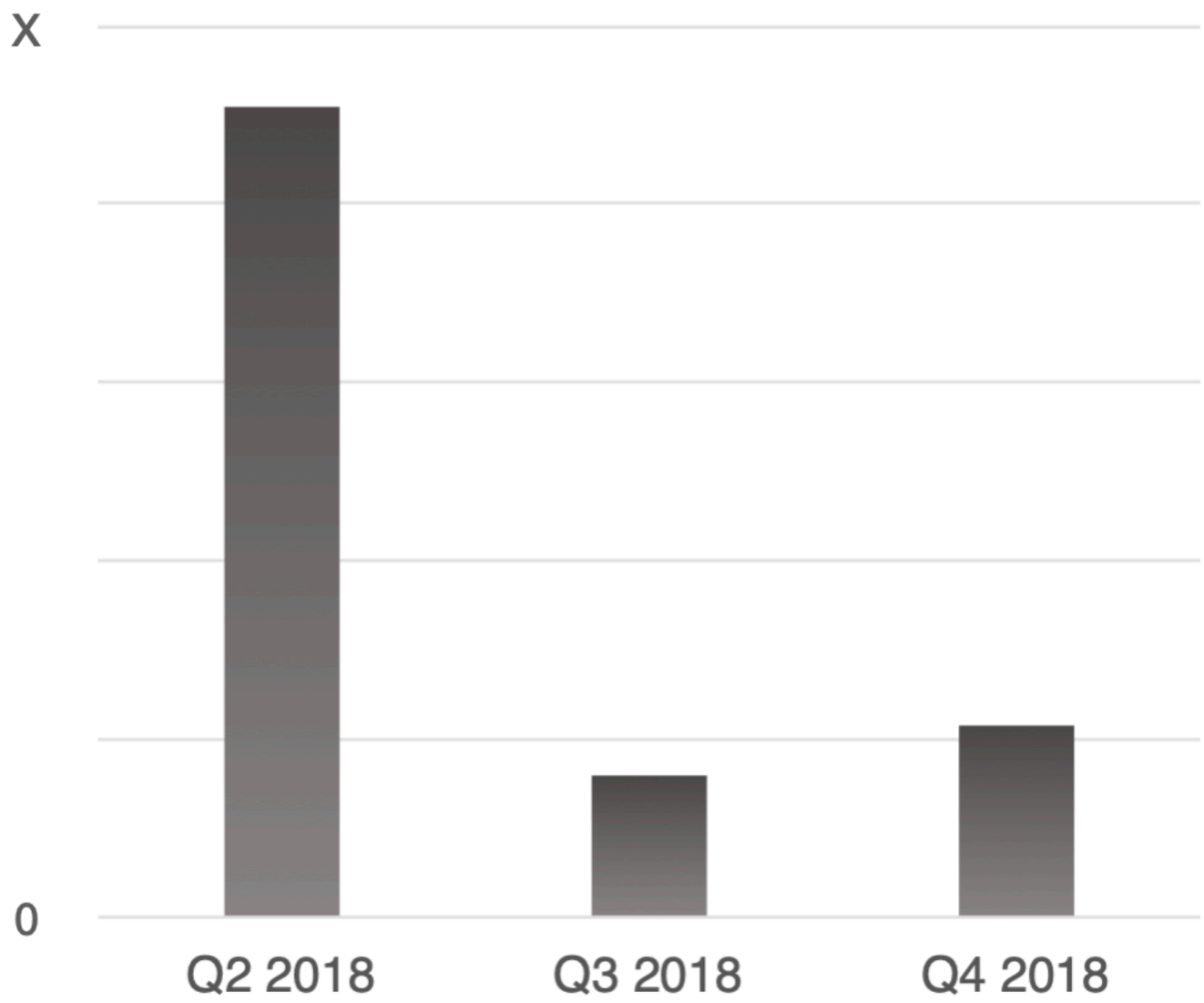


2018 MAGIC NUMBER

Magic Number suggests our sales and marketing investments are prudent, even when all fixed headcount costs are included.

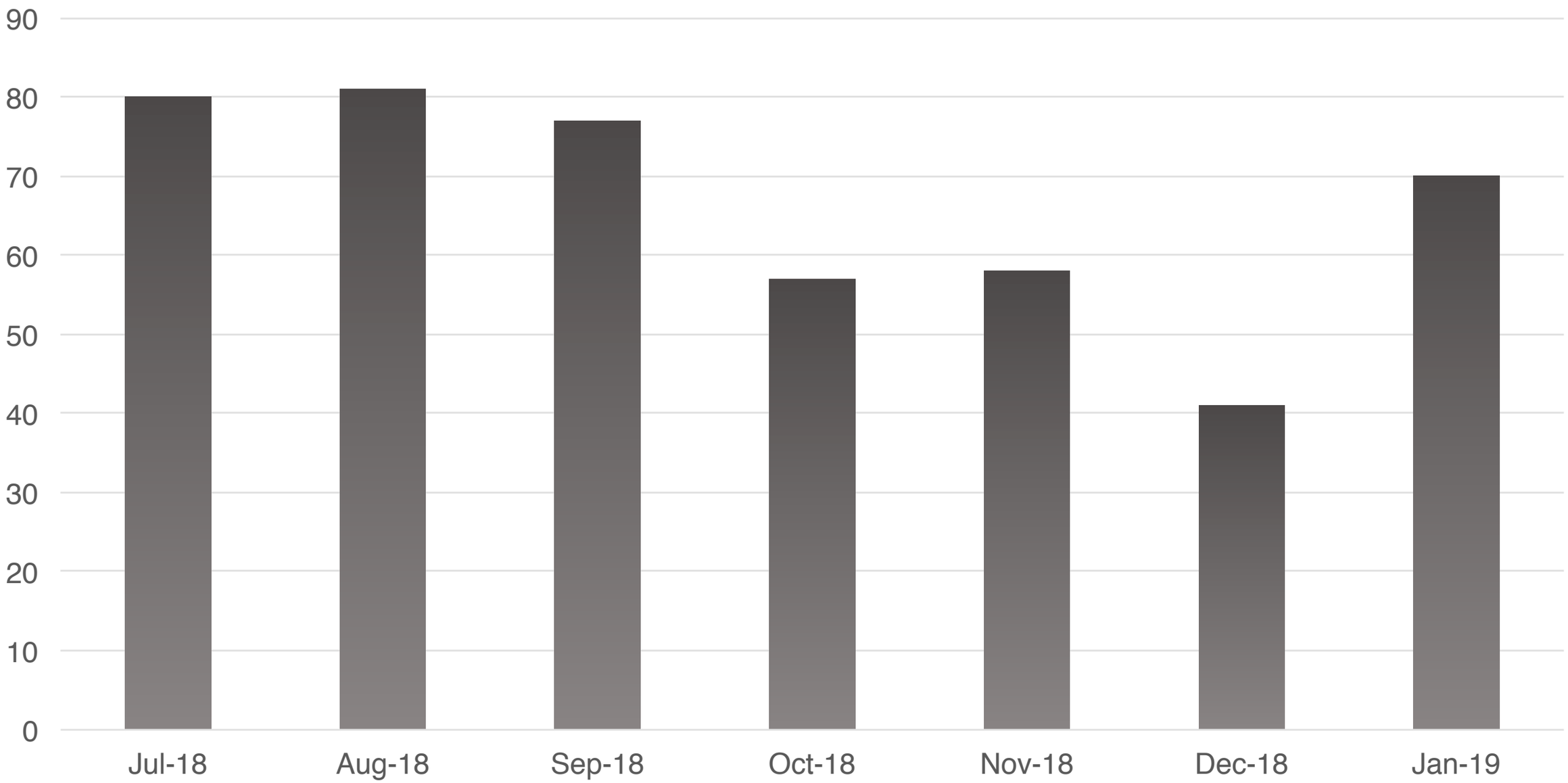
Magic Number Guide	
< 0.5	Not ready to invest in S&M
< 0.75	Evaluate
> 0.75	Invest in S&M

OUR MAGIC NUMBER INCLUDES
All-in Sales & Marketing spend and HC. On average, 15-20% of this goes toward Marketing salaries (CEO, CMO, etc.) and external firms (PR, design) that do not directly contribute to acquiring revenue.



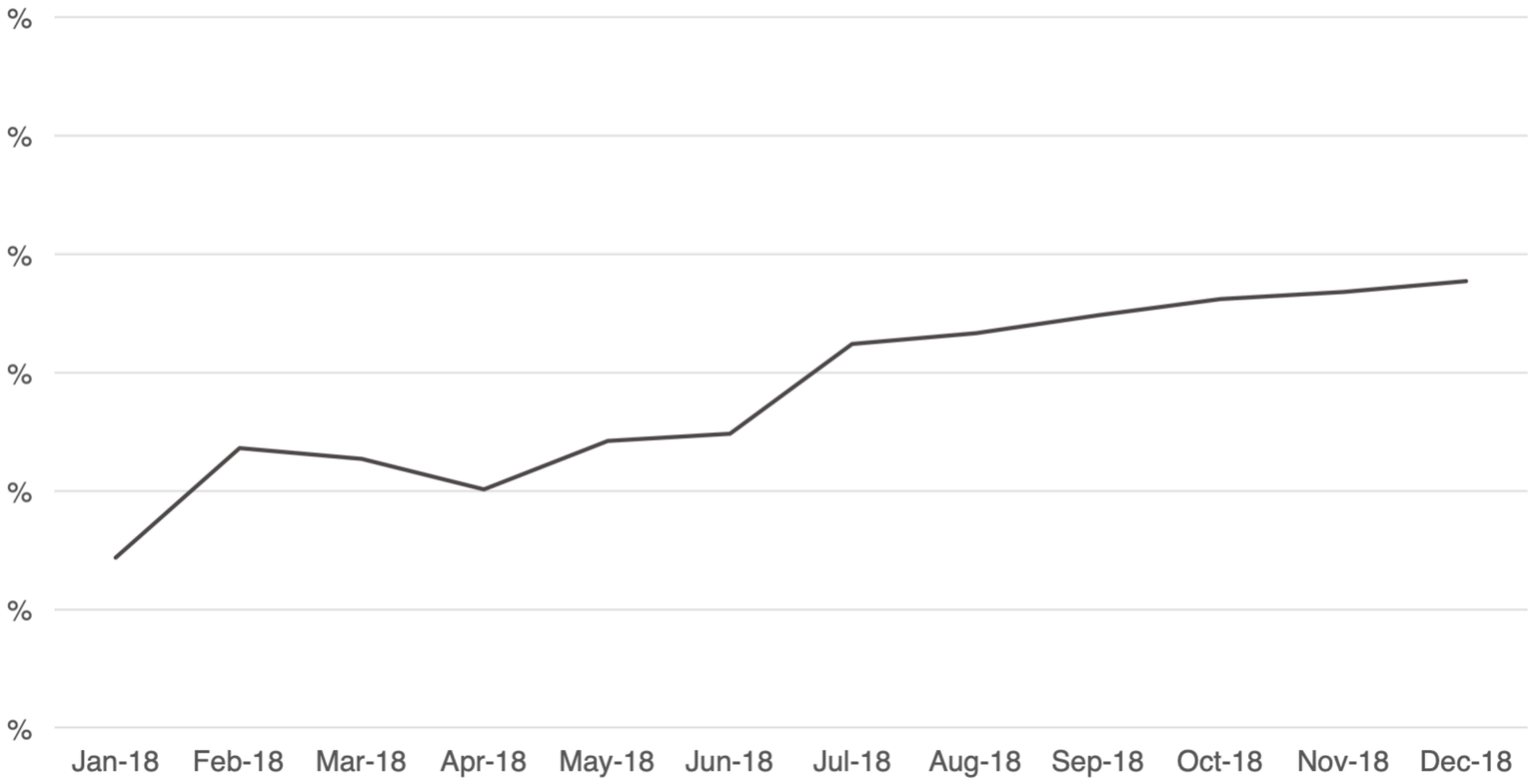
NPS SCORE

Our average NPS is 66.
NPS dipped in December on a small sample size.



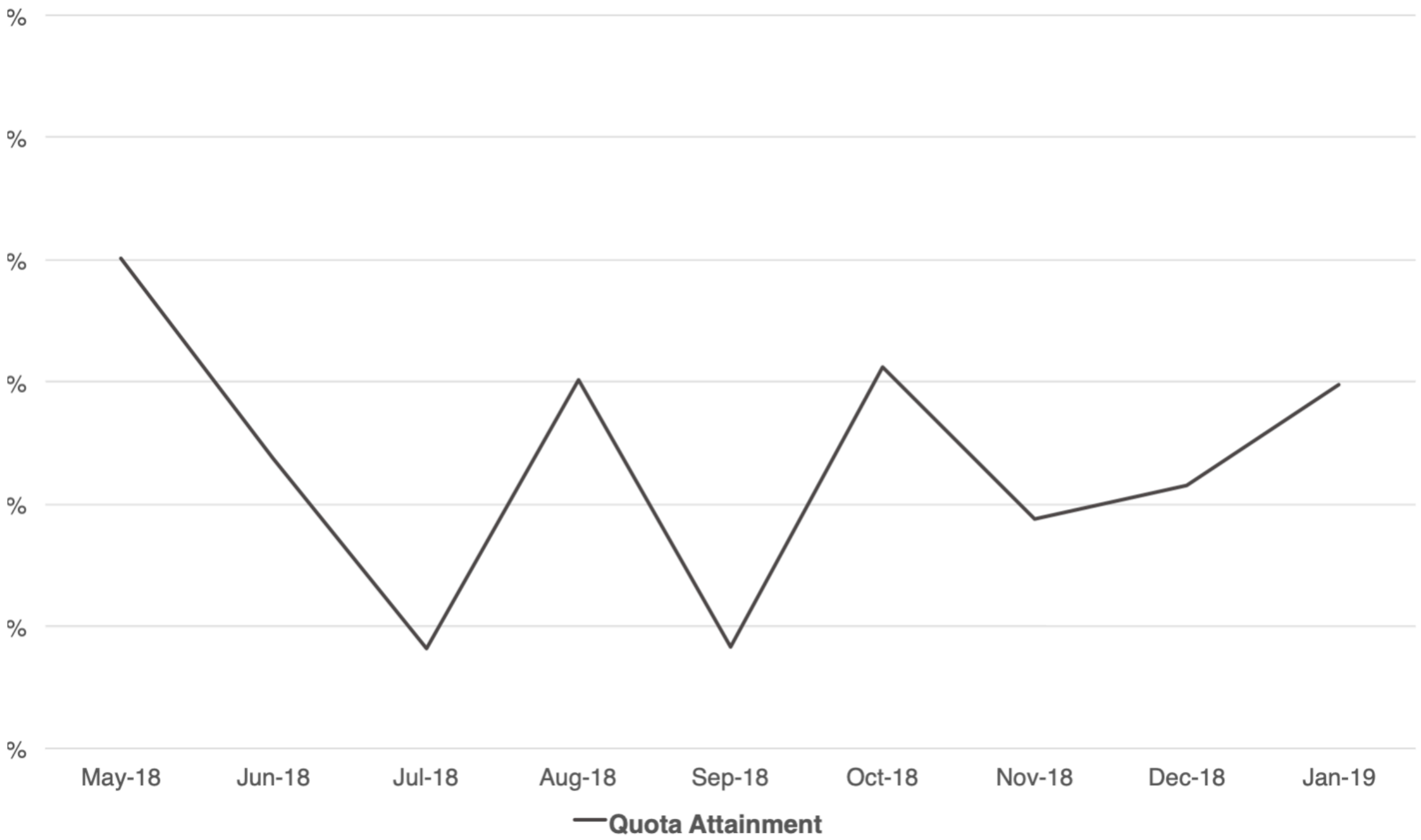
2018 GROSS MARGINS

Gross Margins are increasing as fixed costs are amortized over more revenue.



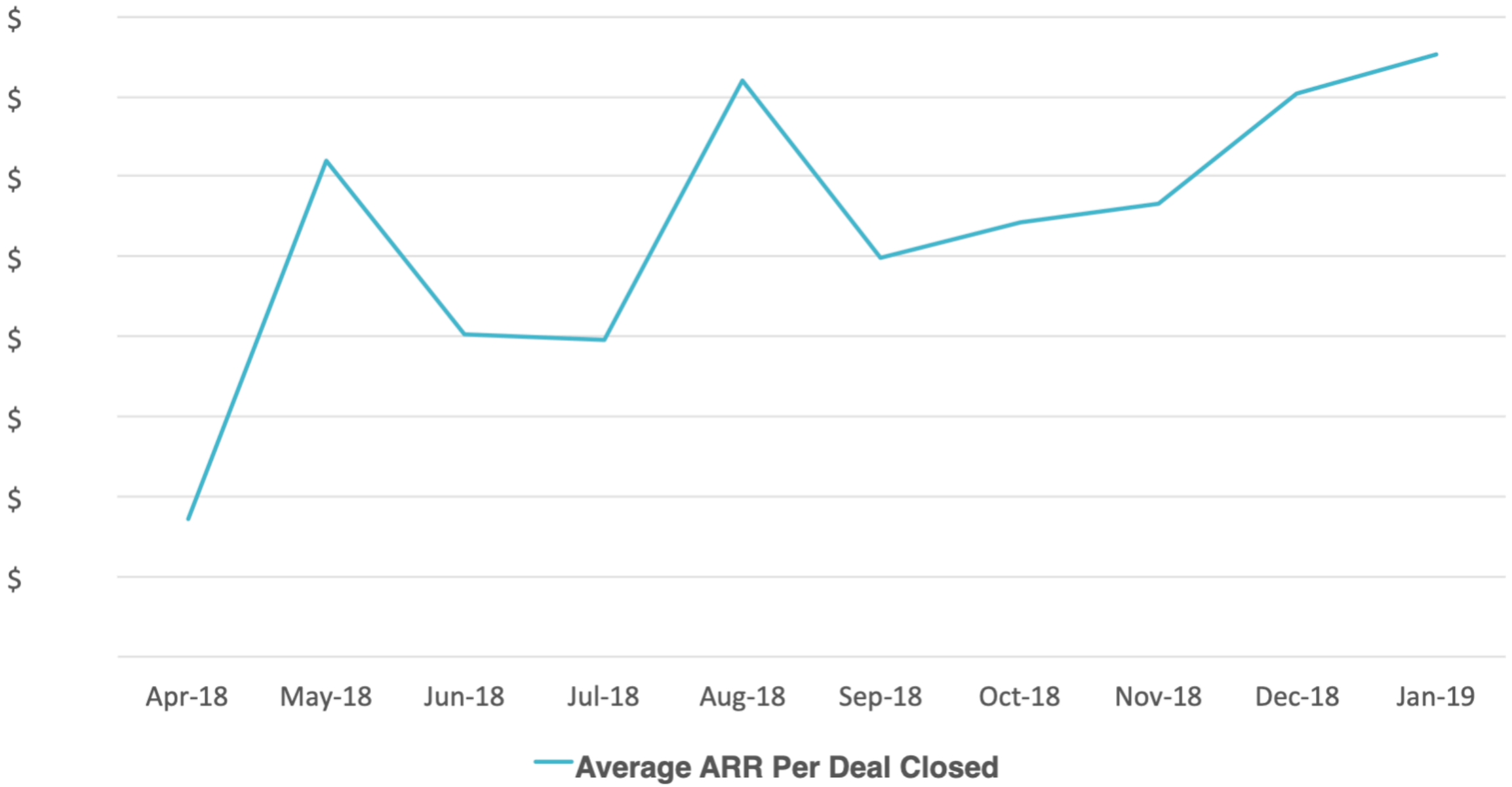
QUOTA ATTAINMENT

Sales team continues to hit or exceed quota.



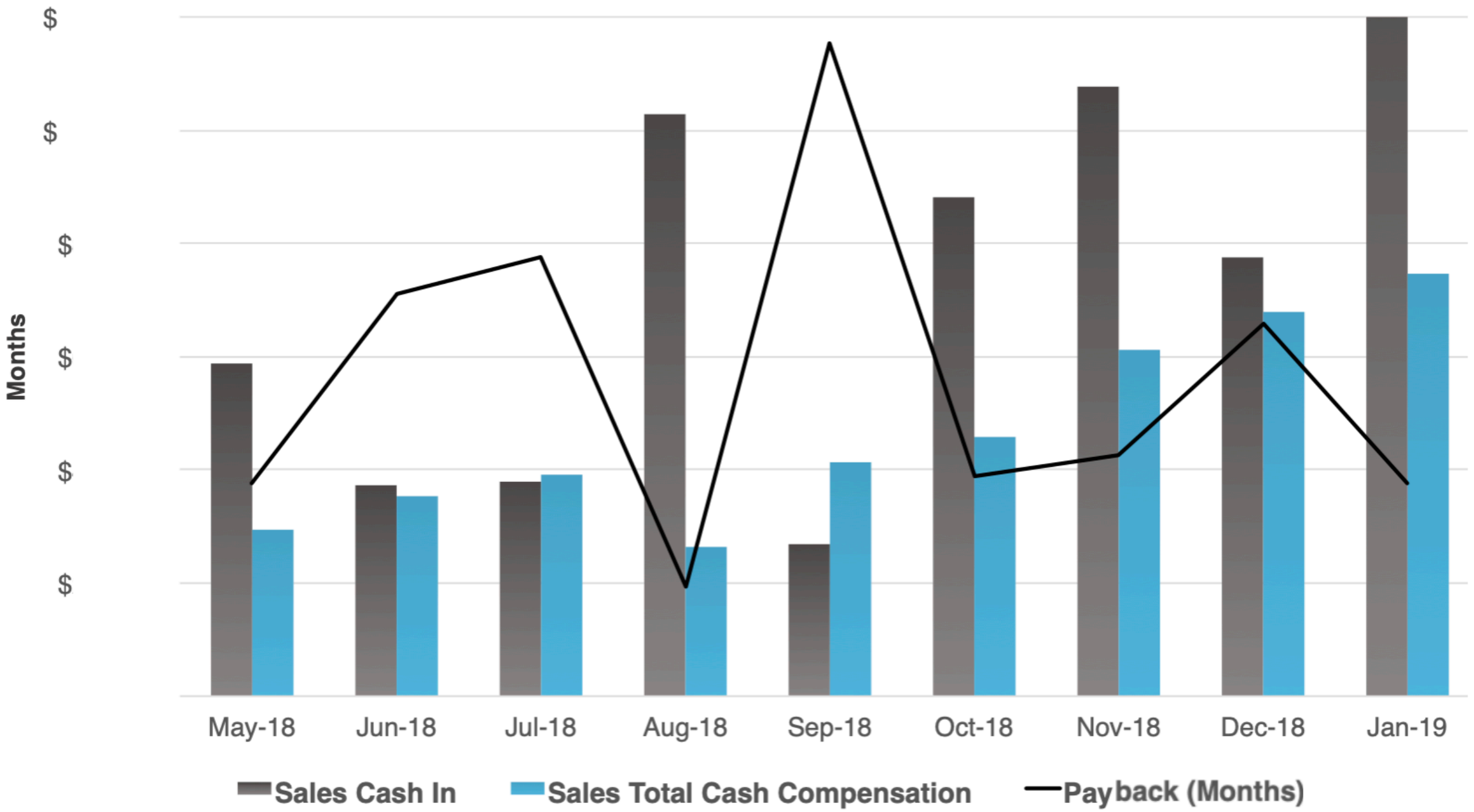
AVERAGE DEAL SIZE

Avg. deal size is increasing as features and brand grow.



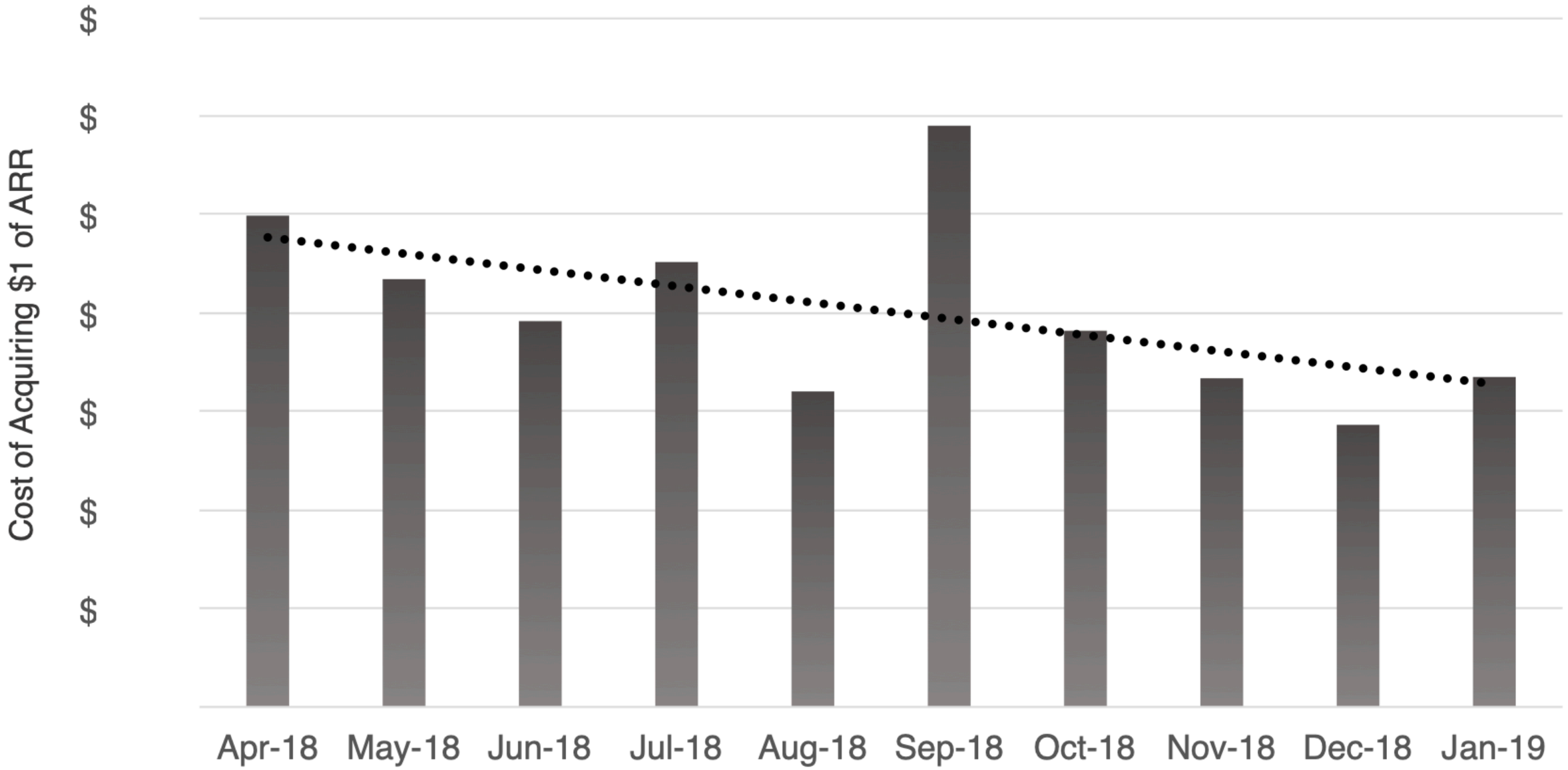
CASH ON CASH

Our reps bring in more each month than we pay out in compensation.



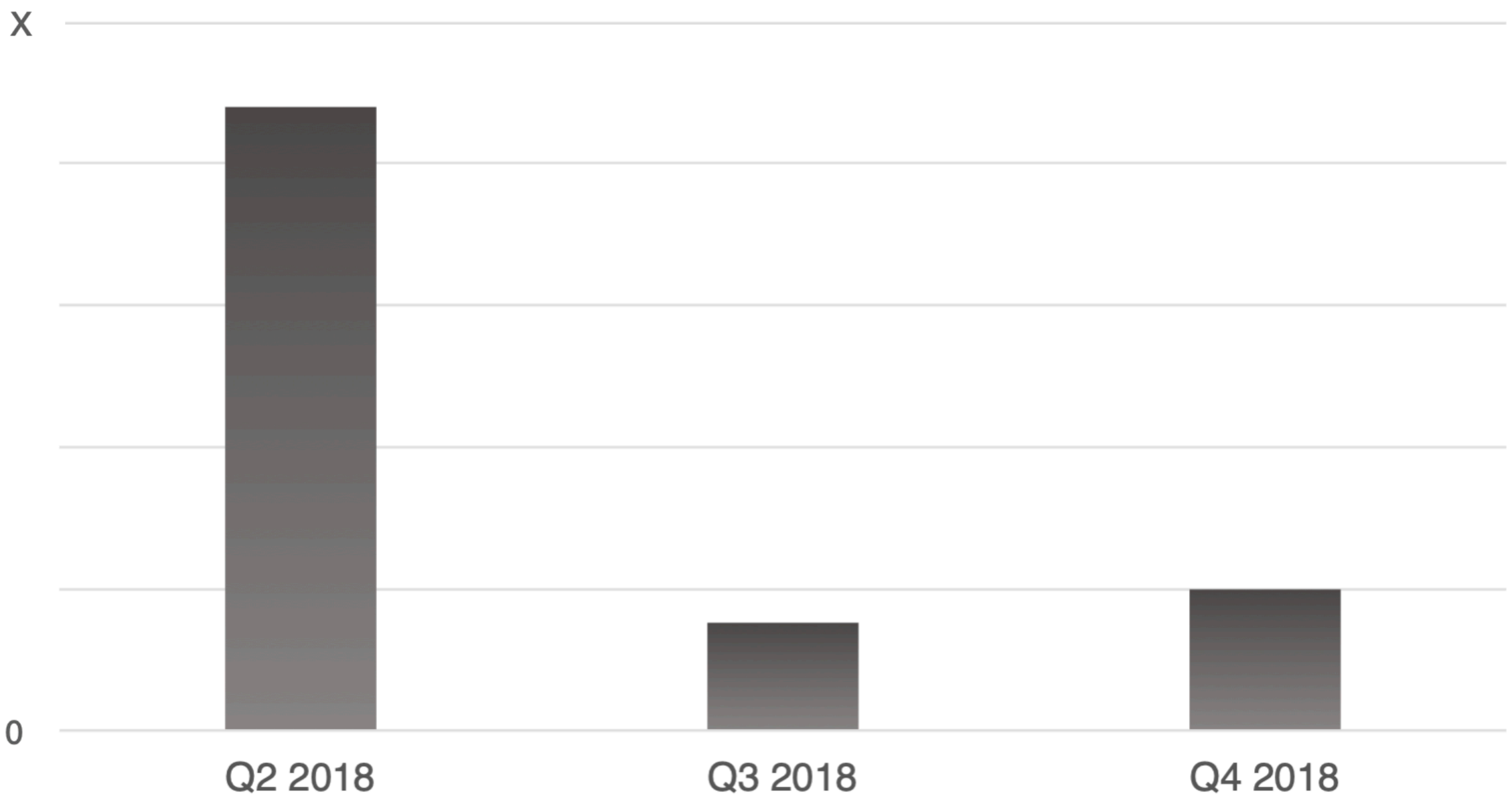
ALL-IN CUSTOMER ACQUISITION COST (CAC)

Large fixed costs are being amortized over larger revenue base.



CAC PAYBACK PERIOD

Our payback period is X months.



Methodology & Footnotes

(We only included one footnote slide, as an example)

SLIDES 4 - 8

Slide 4: 2018 ARR GROWTH

DEFINITIONS

- MoM Growth in Total Bookings ARR:
  December 2017 to December 2018 growth in Bookings ARR from all revenue lines.

CALCULATIONS & METHODOLOGY

- MoM Growth Rate:
  Current month's net new booking ARR divided by previous month's total bookings ARR.

Slide 5: Cohort Analysis

DEFINITIONS

CALCULATIONS & METHODOLOGY

- We assign a customer to a cohort month based on the first month that we billed them for service in our system.

- We cut 15 companies from our data set for the following reasons: company had double entries (in which case we deleted the second entry), fraudulent activity, accounts made just for test purposes, and a company that wanted to run payroll from a personal bank account. We also do not include Rippling itself in cohort analysis. For a variety of systems issues, it's difficult to exclude our own company from many of our metrics and tracking systems, but presently Rippling itself represents <2% of the business ARR.

Slide 6: Expansion ARR

N/A

Slide 7: Quick Ratio

CALCULATIONS & METHODOLOGY

- New and Expansion ARR divided by Churned and Downgraded ARR.

Slide 8: Magic Number

CALCULATIONS & METHODOLOGY

- Current quarter’s revenue minus previous quarter’s revenue, annualized, then divided by previous quarter’s sales and marketing expense.

- Sales software are totals, which will include licenses for reps that have not fully ramped yet. As such, they are overstating true costs. We will fix this at some point in the future.

- Salary figures are all gross earnings.