



Toast, Inc.

Five-Pillar Analysis

Grading the business on five questions: is the sector a sunrise, can the leadership execute, does a moat protect returns, is the balance sheet a fortress, and does the free cash flow show up.

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DALALBYTES VERDICT

Strong fit · 4 of 5 pillars pass · 76/100

The sunrise, the founder, the bundle, and the fortress are genuine; cash conversion owns the fifth.

The five-pillar analysis grades a business on five questions: is the sector a sunrise, can the leadership execute, does a moat protect returns, is the balance sheet a fortress, and does the free cash flow show up. Each pillar passes, partially passes, or fails on evidence.

Pillar 1: Sunrise Industry (restaurant tech and SMB AI)

Pillar 1 PASS

The sunrise is the digitization of the restaurant industry, still early. A large share of US restaurants still run on on-premise legacy systems, and every modernization cycle converts a one-time hardware sale into a recurring software-and-payments relationship. Net location adds are accelerating (a record 9,500 in Q2 2026) into a market where the legacy installed base is still the majority. The second sunrise inside the first is AI applied to SMB operations: Toast IQ Grow (Q1 2026) is the fastest-growing new offering in company history, with pilot customers seeing 8% sales lifts from automated marketing, and 40% of support interactions are now resolved by AI. The honest caveat: GPV per location was flat in Q2 2026, so the sunrise is distribution (new locations), not same-store economics, and ~95% of ARR sits in US SMB restaurants, the most macro-sensitive segment in software.

Pillar 2: Management (Aman Narang)

Pillar 2 PASS

Aman Narang is a co-founder who became CEO on January 1, 2024. Since then: 30,000 net locations added in 2025 (a record), ARR compounding at 25-34%, the first GAAP-profitable years (\$19M in FY2024, \$342M in FY2025), adjusted EBITDA guidance raised in three of the last four quarters, and 19M shares repurchased for \$486M YTD through June 2026. Stock-based compensation is modest for growth software at 3.9% of revenue and declining. The honest discount: the Comparato era ended with the 2023 guest-fee backlash, and six straight quarters of GAAP EPS misses through Q1 2026 (broken only in Q2) mean the market grades on earnings conversion. Narang passes on the location machine, the profitability inflection, and capital allocation.

Pillar 3: Moat

Pillar 3 PASS

The moat is the integrated bundle at density: POS plus payments plus lending plus marketing plus payroll plus analytics at 180,000 US restaurant locations. Evidence it protects returns: SaaS net retention of 110% in 2024, total take rate creeping up 5 bps a year to 98 bps without repricing abuse, and Toast Capital's \$57M of quarterly gross profit with defaults "within expectations" on a 14-year data advantage no lender can replicate. Enterprise wins (Applebee's 2,000+ locations, BWH Hotels, Nordstrom dining) embed Toast deeper into chains that would cost a fortune to displace. The stress test: the moat is the combination, not any component. Square wins ease of onboarding, Clover wins bank distribution, Shift4 wins high-end hospitality, PAR wins enterprise QSR loyalty. Payments economics are structurally capped (~50 bps net), so the moat must widen through attach, not pricing. Pass, with maintenance required.

Pillar 4: Iron Fortress

Pillar 4 PASS

About \$1.71B of cash, zero debt, current ratio of 2.40. No maturities, no covenants, no refinancing risk. The fortress funds the hardware loss-leader strategy, the \$217M tariff-driven inventory build, and the buyback without touching leverage. FY2025 operating cash flow of \$661M against \$53M of capex is a software-like cash profile underneath the hardware noise. The fortress is the reason the company can play a multi-year land-and-expand game while competitors optimize quarterly margins.

Pillar 5: Free Cash Flow

Pillar 5 PARTIAL

The cash generation is real but not yet a machine. FY2025 operating cash flow of \$661M is genuine, and the business has been GAAP-profitable since FY2024. But Q2 2026 printed free cash flow of \$130M versus \$208M a year earlier, on a deliberate hardware inventory build to mitigate tariff and supply-chain risk. The hardware segment is a persistent negative gross profit line (negative 11% of recurring gross profit streams in Q2 2026, ~\$170M of losses in 2024), and Toast Capital's \$91M of FY2025 credit losses add a lending-risk line to a software P&L.; The partial reflects timing and mix, not quality: if the inventory build normalizes and loss rates hold, this pillar passes on evidence within a year.

What would change each grade

- **Sunrise upgrades** if enterprise or international each cross 25,000 locations (both passed 10,000 in Q2 2025), or newer verticals scale toward the \$1B opportunity management frames.
- **Leadership upgrades** on two consecutive quarters of GAAP EPS beats with raised guidance; downgrades on a return to EPS misses.
- **Moat widens** if the take rate keeps creeping without churn, or Toast Capital scales originations while defaults stay inside expectations; it narrows if Square or Clover start winning Toast's mid-market accounts.
- **Fortress holds** unless the company levers up for M&A.;
- **FCF passes** on two consecutive quarters of FCF growth with the inventory build normalized; it fails if credit losses break out of the "within expectations" band or the hardware drag deepens.

Comps

Peer valuation: at \$29.23, Toast trades at ~2.5-2.7x trailing sales and ~36-37x trailing earnings (~19x forward), EV/EBITDA ~31.8. Against the comp set: Shift4 at 0.74x sales, Lightspeed at 1.03x, PAR at ~\$2.35B market cap. Toast is the premium name in the group, priced as the SaaS compounder against processors and hybrids. The premium is earned on growth (22-26% location compounding, 25-34% ARR compounding) and on profitability inflection (\$342M of FY2025 net income, zero debt). It is unearned on cash conversion, where Q2 2026 FCF fell year over year. The market's doubt is visible in the tape: down 16% YTD and 25% off the \$39.73 high despite beating in three of the last four quarters.

Historical lens: the stock has never traded on GAAP earnings for long; it traded on the location story from the 2021 IPO through the 2023 drawdown. The current setup is the first time the business has real earnings (\$342M FY2025 net income) and the market is ignoring them. That is either the opportunity or the warning, and the pillars say opportunity with a cash-conversion watch.

Bottom line

Four of five pillars pass on evidence. The sunrise is restaurant digitization plus SMB AI, both early. Aman Narang's operating record since 2024 is a record 30,000 net locations in 2025, the first GAAP-profitable years, and \$486M of buybacks. The moat is the integrated bundle at 180,000 locations with 110% SaaS net retention and a data flywheel no competitor replicates. The fortress is \$1.71B of cash and zero debt. The single partial is free cash flow: real but choppy, with Q2 2026's \$130M down from \$208M on a tariff-driven inventory build, a hardware loss leader, and a lending book inside the P&L.;

DalalBytes score: 76/100. Verdict: Positive, on the location machine. FY2029 targets (DalalBytes estimates): bear \$24, base \$52, bull \$78. The fifth pillar is one clean year of cash conversion away from upgrading: FCF growth with the inventory build normalized, Toast Capital loss rates inside expectations, and the hardware drag contained. Until then the verdict holds.

Sources

Toast 10-K FY2025, 10-Q Q2 2026, Q2 2026 earnings call (August 4, 2026), Q1 2026, Q3 2025, Q4 2025 earnings releases and calls, investors.toasttab.com.

Business Wire, Zacks, StockTitan, Fool.com earnings transcripts, CoinLaw, 6sense, Ainvest, Forbes, Finnhub, MarketBeat.

All figures DalalBytes research estimates unless attributed; market data as of October 1-2, 2026.

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