



Toast, Inc.

Investment Report

The location machine: 180,000 restaurants, a record 9,500 net adds in Q2 2026, the deepest product attach in restaurant software, and a stock down 16% year to date that keeps selling the evidence.

DalalBytes Research · October 2, 2026 · Reference price \$29.23 (October 1, 2026 close) · NYSE: TOST

DALALBYTES VERDICT

Positive, on the location machine · 76/100

The best-integrated restaurant tech platform in America, compounding locations at 22%+, priced as if the compounding stops. FY2029 targets (DalalBytes estimates): bear \$24, base \$52, bull \$78.

The verdict

Toast is a location-compounding machine with the deepest product attach in restaurant software, and the market keeps selling the evidence. Q2 2026 (reported August 4) was the cleanest quarter in the company's public history: revenue of \$1.908 billion (+23.1%, a \$35 million beat), a record 9,500 net new locations to roughly 180,000 (+22%), ARR of \$2.4 billion (+25%), adjusted EBITDA of \$221 million, and adjusted EPS of \$0.34 that finally broke a six-quarter streak of GAAP EPS misses. The stock fell 2.2% in the month after. Q1 was worse: 22% revenue growth, raised EBITDA guidance, and the stock fell 15% in a day. The business keeps compounding. The multiple keeps compressing. That disconnect is the investment case.

The bull case is the bundle. Toast is not a POS company; it is POS plus payments plus lending plus marketing plus payroll plus analytics, sold as one integrated platform to an industry that still runs on Oracle MICROS servers from the 1990s. The economics show it: SaaS ARR of \$1.2 billion growing 27% with 32% subscription gross profit growth, SaaS net retention of 110% (2024), a total take rate creeping up 5 bps a year to 98 bps without repricing abuse, and Toast Capital adding \$57 million of quarterly gross profit with defaults "within expectations" thanks to a data advantage no lender can replicate. Enterprise is no longer a side project: Applebee's (2,000+ locations, the largest deal in company history), BWH Hotels, Nordstrom's 200 dining locations, TGI Fridays UK.

The bear case is the price of the ticket. At about 2.7x trailing sales, Toast trades at nearly 4x Shift4 (0.74x) and 2.6x Lightspeed (1.03x): the market prices it like a SaaS platform, and any quarter that smells like a processor gets punished. Growth is location adds, not same-store strength: GPV per location was flat in Q2 2026 and down 1% in Q4 2024, and roughly 95% of ARR sits in US small and mid-market restaurants, the most macro-sensitive segment in software. Hardware is a deliberate money-loser, Toast Capital's \$91 million of FY2025 credit losses change the risk profile, and the stock is down 16% year to date and 25% off its \$39.73 high despite beating in three of the last four quarters.

DalalBytes score: 76/100. Verdict: Positive, on the location machine. FY2029 targets (DalalBytes estimates): bear \$24, base \$52, bull \$78.

The platform: one bundle, two revenue engines

Toast (founded 2011 in Boston, IPO September 2021) is a cloud-native, restaurant-specific technology platform: POS hardware and software, in-house payments processing, and SaaS modules covering online ordering, delivery, gift cards, loyalty, marketing, payroll, team management, inventory, and analytics. Newer layers: Toast IQ (analytics, Q3 2025), Toast Advertising (Q3 2025), Toast IQ Grow (first AI agent, Q1 2026, the fastest-growing new offering ever, with pilot customers seeing 8% sales lifts from automated marketing campaigns), and Toast Capital (merchant cash advances).

Engine 1: fintech (payments). Toast processes the restaurant's card volume and keeps a spread. Fintech revenue was 2.59% of GPV in Q2 2026, essentially flat across three years (2.58% in FY2025, 2.55% in FY2024): growth comes from adding locations and volume, not from widening the cut. What Toast actually keeps is far smaller: payments gross profit was 0.50% of GPV in Q2 2026, because interchange and network fees pass through.

Engine 2: SaaS subscriptions. Per-location software fees, growing at mid-single-digit ARPU, with SaaS ARR of \$1.2 billion in Q2 2026 (+27% YoY) and subscription gross profit up 32%, helped by AI in customer support. The blended metric management reports is total take rate (recurring gross profit as a percentage of GPV): 98 bps in Q2 2026, up 5 bps year over year.

Hardware and professional services is a deliberate loss leader: gross profit was negative 11% of recurring gross profit streams in Q2 2026, and the segment lost roughly \$170 million in 2024. Toast sells hardware near or below cost to win the location, then monetizes through payments and SaaS for years.

Why it wins technically and operationally: cloud-native versus on-premise legacy (Oracle MICROS, NCR/Aloha), with automatic updates and no local server; a single integrated stack versus the integration model (competitors like Clover make several capabilities available only through third-party integrations); restaurant-specific workflows (tableside ordering, coursing, kitchen display, tip pooling) that generalist platforms like Square serve more shallowly; and a data flywheel (14 years of operating data across ~180,000 locations) that feeds Toast IQ analytics and Toast Capital underwriting. Third-party 6sense 2026 data puts Toast at ~24.7% restaurant POS share versus Square at ~28.1%.

Why it is winning, with evidence

- **Location growth compounding at 22-26%:** 134,000 (Q4 2024) to 180,000 (Q2 2026), a 34% increase in six quarters. Net adds accelerating: ~7,000 (Q4 2024), 6,000+ (Q1 2025), record 8,500 (Q2 2025), 7,500 (Q3 2025), ~8,000 (Q4 2025), ~7,000 (Q1 2026), record 9,500 (Q2 2026).
- **ARR compounding at 25-34%:** \$1.6B (Q4 2024) to \$2.4B (Q2 2026). SaaS and payments ARR each ~\$1.2B in Q2 2026, growing 27% and 23% respectively.
- **Monetization deepening without repricing abuse:** take rate up 5 bps YoY to 98 bps; SaaS net retention 110% in 2024; Toast Capital \$57M quarterly gross profit (9 bps of take rate) with >\$1B originations in 2024.
- **Moving upmarket:** Applebee's (2,000+ locations, largest deal ever), BWH Hotels, Nordstrom (200 dining locations), Topgolf, Firehouse Subs, TGI Fridays UK. Enterprise, international, and food-and-beverage retail each passed 10,000 live locations in Q2 2025. Newer verticals on pace for \$100M ARR exiting 2025, framed as a \$1B opportunity.
- **AI execution ahead of the industry:** Toast IQ Grow is the fastest-growing new offering ever; engineering coding velocity up 60%+ YoY; 40% of support interactions resolved by AI (Q1 2026 call).
- **Shareholder-friendly capital return:** 19M shares repurchased for \$486M YTD through June 30, 2026, with ~\$100M remaining under authorization.

Financial deep dive

Eight quarters of compounding:

Quarter	Revenue	Locations	ARR	GPV	Adj. EBITDA
Q4 2024	\$1.34B (+29%)	134K (+26%)	\$1.6B (+34%)	\$42.2B (+25%)	\$111M

Quarter	Revenue	Locations	ARR	GPV	Adj. EBITDA
Q1 2025	\$1.34B (+24%)	140K (+25%)	\$1.7B (+31%)	\$42.2B (+22%)	\$133M
Q2 2025	\$1.55B (+25%)	148K (+24%)	\$1.9B (+31%)	\$49.9B (+23%)	\$161M
Q3 2025	\$1.63B (+25%)	156K (+23%)	\$2.0B (+30%)	\$51.5B (+24%)	\$176M
Q4 2025	~\$1.68B (derived)	164K (+22%)	\$2.0B+ (+26%)	\$51.4B (+22%)	\$163M
Q1 2026	\$1.63B (+22%)	171K (+22%)	\$2.2B (+26%)	\$51.3B (+22%)	\$179M
Q2 2026	\$1.908B (+23%)	180K (+22%)	\$2.4B (+25%)	\$60.7B (+22%)	\$221M

The profitability inflection is real. First full year of GAAP profitability: FY2024 (net income \$19M). FY2025: net income \$342M (5.6% margin), operating income \$292M (4.8% margin), gross margin 25.9%. Q2 2026: GAAP operating income \$152M (vs \$80M a year earlier), net income \$154M, adjusted EBITDA \$221M. Note on margins: the company's 37% adjusted EBITDA figure is measured against recurring gross profit streams, not total revenue (about 11.6% on total revenue). FY2026 adjusted EBITDA guidance has been raised twice, now \$790-810M; the long-term target is 40%+ on the company's framing. The GAAP-versus-adjusted gap is modest and shrinking: stock-based compensation was \$242M in FY2025 (3.9% of revenue), down from \$253M in 2024 and \$277M in 2023.

Balance sheet: about \$1.71B of cash, zero debt, current ratio 2.40. FY2025 operating cash flow was \$661M against \$53M of capex. Q2 2026 is the one soft spot: operating cash flow \$144M (vs \$223M in Q2 2025) and free cash flow \$130M (vs \$208M), driven by a deliberate hardware inventory build (\$217M at June 30, 2026 vs \$114M at December 31, 2025) to mitigate tariff and supply-chain risk. The cash generation is real; the quarter was an inventory decision, not a business problem.

Valuation as of October 1, 2026: price \$29.23, 52-week range \$22.26 to \$39.73, down 16% YTD and 25% off the high. Market cap ~\$17B on ~607M shares. Trailing P/E ~36-37, forward P/E ~19, trailing P/S ~2.5-2.7, EV/EBITDA ~31.8. Consensus: Moderate Buy / Outperform, mean price target ~\$39, range \$25-\$45.

Competition

Competitor	Where they compete	Where they do not
Block / Square	Closest comp; \$228B FY2024 GPV; wins cafes, QSR, food trucks, single-location SMBs on ease of onboarding	Deep full-service workflows, enterprise chains, integrated lending + marketing stack
Fiserv / Clover	Volume leader (~\$300B GPV); bank + ISO distribution; restaurants its largest vertical	Integration-dependent features, less restaurant depth, no data-driven lending equivalent
Shift4	SkyTab POS; high-end hospitality, stadiums, enterprise; often beats Toast there	SMB restaurant density and SaaS ARPU expansion; valued as processor (0.74x sales)

Competitor	Where they compete	Where they do not
Lightspeed	Independents and multi-location; Europe/Canada strength; ~1.03x sales	US restaurant density, payments attach, capital product
PAR Technology	Enterprise Tier 1 (Burger King, Popeyes); Punchh loyalty; 20%+ organic ARR growth	No SMB presence; no comparable payments scale
Legacy (Oracle MICROS, NCR)	Entrenched in large chains and hotels on on-premise systems	Toast is displacing them from below (Applebee's, TGI Fridays wins)

The structural read: Toast owns the integrated restaurant-tech position in US SMB and mid-market with the deepest SaaS attach. Square owns ease of entry. Clover owns bank distribution. Shift4 owns high-end hospitality and stadiums. PAR owns enterprise QSR loyalty. Nobody replicates the full bundle (POS plus payments plus lending plus marketing plus payroll) at Toast's location density.

The past year: earnings and announcements

- **Q3 2025 (Nov 4, 2025):** revenue \$1.63B (+25%, 3% beat); ARR \$2.0B (+30%); +7,500 locations to 156,000; GPV \$51.5B (+24%); net income \$105M; EBITDA \$176M (+56%); take rate 98 bps. Launched Toast IQ and Toast Advertising. Raised FY2025 EBITDA guide to ~\$615M midpoint. Stock +9.5%.
- **Q4 2025 (Feb 12, 2026):** record 30,000 net locations added in 2025 to 164,000; ARR over \$2.0B (+26%); FY2025 GPV \$195.1B (+23%); recurring gross profit +33%; GAAP operating income \$292M (vs \$16M); net income \$342M (vs \$19M); EBITDA \$633M (vs \$373M). \$500M buyback increase. Decade goal framed: \$5B and \$10B ARR.
- **Q1 2026 (May 7, 2026):** revenue \$1.63B (+22%, in line); net income \$126M; GAAP EPS \$0.20 (missed ~\$0.25-0.27); EBITDA \$179M; +7,000 locations to 171,000; ARR \$2.2B (+26%); GPV \$51.3B (+22%); FCF \$115M. Launched Toast IQ Grow. Raised FY2026 guide (recurring gross profit +21-23%, EBITDA \$790-810M). Stock -15% on hardware costs, tariff concerns, EPS miss.
- **Q2 2026 (Aug 4, 2026):** revenue \$1.908B (+23.1%, \$35M beat); adjusted EPS \$0.34 (beat \$0.32), breaking the six-quarter GAAP EPS miss streak; record +9,500 locations to ~180,000; ARR \$2.4B (+25%); GPV \$60.7B (+22%); recurring gross profit +28% (\$595M non-GAAP); operating income \$152M (vs \$80M); net income \$154M; EBITDA \$221M (+37%, incl. ~\$10M one-time tariff refund). Take rate 98 bps. Toast Capital \$57M gross profit. 19M shares for \$486M repurchased YTD. Enterprise wins: BWH Hotels, Kung Fu Tea, TGI Fridays UK. Stock -2.2% in the month after.
- **Major announcements:** Applebee's (largest deal ever, 2,000+ locations, Q1 2025); American Express multi-year partnership (Aug 2025); Toast Go 3 launch (Aug 2025) and international rollout (Q1 2026); Toast IQ + Advertising (Q3 2025); Toast IQ Grow AI agent (Q1 2026); enterprise wins (Topgolf, Nordstrom, Firehouse Subs, Zabar's, BWH); international firsts (Australia, UK); grocery/retail vertical expansion; \$500M buyback increase (Feb 2026). Guidance raised in three of four quarters.
- **Leadership:** Aman Narang, co-founder, CEO since January 1, 2024 (succeeded Chris Comparato, who stepped down after the summer 2023 guest-fee backlash, reversed). CFO: Elena Gomez. ~5,500 employees.

Risks

- **The multiple is the whole debate.** ~2.7x trailing sales vs Shift4 at 0.74x and Lightspeed at 1.03x. Priced like a SaaS platform; any quarter that reads like a processor gets punished.
- **Six straight quarters of GAAP EPS misses through Q1 2026** taught the market to demand earnings conversion. Q2 broke the streak; one quarter does not rebuild the habit.
- **Growth is location adds, not same-store strength.** GPV per location flat in Q2 2026, down 1% in Q4 2024. ~95% of ARR in US SMB restaurants, the most macro-sensitive segment in software.
- **Hardware is a deliberate money-loser** with real working-capital cost: Q2 2026 FCF fell to \$130M from \$208M YoY on a tariff-driven inventory build.
- **Toast Capital changes the risk profile.** \$91M of FY2025 credit losses. The data advantage is real, but lending inside the fintech line is a different business than software.
- **Payments economics are structurally capped:** ~50 bps net after interchange. Take-rate regulation is a cited risk.
- **US concentration.** International is growing but still small.
- **Tariff and supply-chain exposure** on hardware, managed through inventory rather than pricing.

Valuation: three lenses

Lens 1: relative. At \$29.23, ~2.5-2.7x trailing sales and ~36-37x trailing earnings (~19x forward). Against peers it carries a clear premium: Shift4 at 0.74x sales, Lightspeed at 1.03x. The premium is the market's bet that Toast is a SaaS compounder, not a processor. The discount to the \$39.73 high (down 25%) is the market's doubt about the same bet. Consensus (Moderate Buy, mean ~\$39) sits between the two.

Lens 2: the location math. 180,000 locations at \$2.4B of ARR is ~\$13,300 of ARR per location, growing at mid-single digits on ARPU with location count compounding at 22%+. If net adds hold near 30,000 a year, Toast crosses 300,000 locations by 2029-2030, and each incremental location carries the same 98-bps take-rate engine plus SaaS upsell (110% net retention in 2024). The model does not need heroic ARPU assumptions; it needs the sales machine to keep working.

Lens 3: scenarios. FY2029 targets (DalalBytes estimates): bear \$24 (-18%), base \$52 (+78%), bull \$78 (+167%). Bear: location growth decelerates to the mid-teens, an SMB restaurant downturn compresses same-store volume, take-rate expansion stalls, and the multiple rerates toward 1.5x sales on ~\$10B of FY2029 revenue. Base: net adds hold near 30,000 a year, revenue compounds at ~18-20% to roughly \$12B by FY2029, adjusted EBITDA margins march toward the 40%+ long-term target, buybacks continue, and the market pays ~3x sales for a proven compounder. Bull: enterprise and international break out, newer verticals scale toward the \$1B opportunity, Toast Capital and Advertising become real second engines, revenue reaches ~\$14B, and the multiple holds near 4x on visible 40%+ margins. The base case remains the highest probability: the location machine has compounded through every quarter of the last two years, and the market keeps pricing the doubt.

What would change the verdict

To the upside: two consecutive quarters of GAAP EPS beats with raised guidance; GPV per location turning positive; enterprise or international crossing 25,000 locations each; Toast Capital loss rates staying inside expectations while originations scale; or the multiple compressing further on no news (a better entry, not a better business).

To the downside: net location adds decelerating below 5,000 a quarter; a return to GAAP EPS misses; Toast Capital credit losses breaking out of the "within expectations" band; a take-rate decline; or an SMB restaurant downturn that turns the 95% US SMB concentration from a growth story into a cyclical one.

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. Q3 2024 and Q4 2025 total revenue are derived from reported growth rates, not separately reported.

Research for informational purposes only, not investment advice. Investing involves risk. This analysis discusses the ticker only and contains no portfolio or position information.