Independent Financial Analysis & Valuation Project

Toast, Inc. is a leading cloud-based, vertically integrated restaurant technology platform that generates the majority of its revenue through payment processing while successfully selling high-margin software subscriptions, hardware, and financial services to restaurant operators. With approximately 171,000 active locations as of Q1 2026, representing roughly 20% domestic penetration of the U.S. restaurant market, Toast has built a strong competitive position through high switching costs, deep operational integration, and an expanding suite of productivity tools. The key operational metrics include Annualized Recurring Run-Rate (ARR) exceeding $2.2 billion and continued net location adds, supported by a multi-pronged growth strategy focused on domestic market share gains, geographic expansion, and ARPU growth through module adoption and AI capabilities such as Toast IQ Grow.

Financially, Toast has demonstrated impressive execution throughout their history. Revenue reached $6.153 billion in 2025, with a historical compound annual growth rate of approximately 47.5% from 2019–2025, though decreasing to the mid 20% range as expected. The company has achieved meaningful margin expansion, turning GAAP profitable with profit margins reaching 5.56% as of 2025, while generating strong free cash flow of $647 million in 2025. Toast maintains a strong balance sheet with no debt and substantial cash reserves, allowing continued investment in growth initiatives alongside shareholder returns through its recent share repurchase program. Management, led by founder/CEO Aman Narang and supported by experienced financial leadership, exhibits strong alignment with shareholders through significant founder ownership and performance incentives tied to recurring gross profit and EBITDA.

From a valuation perspective, a detailed discounted cash flow model with conservative assumptions around revenue growth tapering from 21% to 11% over the projection period, ongoing gross and operating margin expansion, and a 14.87% WACC yields an implied equity value of approximately $28.55 billion. This represents a roughly 53% discount to the current market capitalization of $13.47 billion, suggesting the stock is undervalued relative to its growth and profitability trajectory.

Recommendation: Buy / Attractive. Toast represents a high conviction investment opportunity for long-term oriented investors. The company benefits from durable moats in a large and growing restaurant technology market, proven unit economics improvement, and multiple levers for sustained growth. While risks remain the restaurant industry cyclicality, hardware margin pressure, execution on international and enterprise expansion, and broader competitive dynamics, the risk/reward profile is compelling at current levels. Toast is well positioned as a scaled vertical SaaS leader capable of delivering attractive compounded returns over a long-term horizon.

Business Overview

Business

Toast is a cloud based vertically integrated restaurant technology platform that generates revenue primarily through payment processing while cross-selling software subscriptions, hardware, and financial services to mainly restaurant operators.

Revenue Segment Overview

Toast's products and services break into three revenue segments:

- **Financial Technology solutions:** The largest portion of revenue and gross profit. Revenues are derived from Gross Transaction Volume(GPV) fees which represent a percent of each sale by restaurant customers, marketing services, and service fees for Toast Capital which provides working capital loans to customers.
- **Subscription Services:** Comprises cloud-based software applications charged on a per location, recurring monthly basis. These modules target operational efficiency, labor optimization, inventory management, and guest loyalty tools.
- **Hardware and Professional Services:** Includes the deployment of terminal infrastructure (Toast Flex, Toast Go handhelds, digital kiosks) and Kitchen Display Systems (KDS), alongside implementation fees. This segment is supposed to be a loss leader to get customers in and charge them high margin products while simultaneously increasing switching costs for customers due to adaptability to Toasts Hardware.

Key Operational Metrics

Management evaluates Toast's financial and operational health through three primary operational metrics:

- **Annualized Recurring Run-Rate (ARR)**: The key indicator of compounding platform scale, which crossed the $2.2 billion milestone at the end of Q1 2026. This combines the runrate of high margin software subscriptions and predictable payment processing streams.
- **Gross Payment Volume (GPV)**: The total dollar value of transactions processed through Toast's infrastructure. GPV directly dictates FinTech segment revenue via Toast's structured transaction "take rate."
- **Net Location Adds**: The total number of active commercial merchant locations utilizing Toast. This metric measures core market capture and acts as the baseline for future software module upselling.

Customers and Location

The majority of their customer base are in small and medium sized(SMB) restaurants based in the United States. Over the last couple of years, they've expanded their Total Addressable Market (TAM) to include enterprise restaurants and other retail locations such as Food and Beverage and Grocery stores. International expansion is currently focused on high-density metropolitan areas across Tier-1 English-speaking markets, including Canada, the United Kingdom, Ireland, and Australia.

Growth Pillars

Management's growth strategy is a multipronged approach financed from investment into R&D, marketing and sales to achieve:

- **Domestic Location Acquisition & Core Market Penetration:** Toast continues to capture outsized market share within the estimated 875,000 domestic restaurant locations. Platform penetration has scaled rapidly, climbing from approximately 13% of total US locations at its 2024 Investor Day to roughly 20% by Q1 2026 (reaching an active footprint of over 171,000 live locations).
- **Vertical and Geographic TAM Expansion:** Driving incremental geographic scaling into international test markets while capturing market share in adjacent retail and F&B segments through a dedicated sales force.
- **ARPU Expansion via Module Cross-Selling:** Increasing Average Revenue Per User (ARPU) by driving higher software adoption rates per location. This is achieved by expanding the marketplace ecosystem and incentivizing existing merchants to adopt additional modules (e.g., payroll, supply chain, and guest loyalty software).

Industry Overview

Toast operates within a subset of the Vertical SaaS industry focused on restaurant technology, encompassing point-of-sale (POS) systems, payments, operations, marketing, and other foodservice related solutions.

Market Size and Growth

The global restaurant technology solutions market reached a size of $6.8 billion as of 2025 and is projected to grow to $14.4 billion by 2034, representing a CAGR of 11.5%. Examining Toast's two primary revenue segments, analysts forecast CAGRs ranging from 8% to 19% depending on the segment within the broader restaurant POS and management software market.

To assess each segment individually, it is useful to consider the growth trajectory of the U.S. restaurant industry for the POS segment, given that the majority of Toast's business is domestic and its POS revenue is directly tied to restaurant sales volumes. Analysts project U.S. restaurant industry growth of 3–7% over the next five years. For Toast's SaaS revenue segment, analysts are forecasting growth rates between 12–19%, even amid headwinds from AI-driven disruption concerns. Given these projections, a blended growth rate of 8–12% appears to be a reasonable assumption across both segments.

Market Financials

Gross margin analysis is a useful lens for identifying dominant players within an industry. For the SaaS and vertical software sector, average gross margins typically range from 70–80%. Toast's SaaS segment is well within this range, posting a 72% gross margin as of 2025. However, when looking at Toast's overall blended gross margin, the figure drops significantly to 25.89%. This disparity is largely attributable to the POS segment, which carries only a 23% gross margin, and the hardware and professional services segment, which operates near breakeven to lower the barrier to entry for new customers.

On the operating margin front, Toast recently achieved positive GAAP operating margins, reporting 21% as of Q1 2026. These margins are expected to continue expanding as the company grows its customer base and the SaaS segment increases as a proportion of total revenue rising from 9.32% in 2019 to 15.21% as of 2025.

Industry Drivers and Trends

Analyzing the key drivers and trends shaping the restaurant technology industry helps identify which companies are delivering the most value relative to current customer demands. The first major driver is the ongoing challenge of labor shortages and cost pressures. Toast addresses this through software applications designed to optimize scheduling and reduce staffing costs, as well as tools like xtraCHEF, which automates invoice scanning, tracks fluctuating ingredient costs, and helps protect margins against supply chain disruptions.

The second driver is digital transformation and evolving consumer expectations, which increasingly demand contactless payments, online ordering, loyalty programs, and seamless omnichannel experiences. Toast responds to these needs through competitively priced hardware and software solutions such as its Digital Ordering and Delivery application, which consolidates first party online ordering, branded mobile apps, and third party marketplace integrations into a unified dashboard.

In terms of broader industry trends, AI and automation integration is a dominant theme, with customers seeking predictive analytics, personalized marketing capabilities, and inventory optimization tools. Toast's response is Toast IQ Grow, a newly launched AI agent designed to help customers navigate and maximize the value of Toast's broader product suite. A recurring piece of customer feedback, according to Toast, has been that while they appreciate Toast's technology, they often lack the bandwidth to fully utilize it. Toast IQ addresses this directly by automating routine tasks and surfacing actionable insights, reducing the operational burden on restaurant operators.

Competitive Landscape and Risks

Market share analysis provides a clear picture of which companies are winning the customer acquisition battle. As shown in Table 1, the two primary gainers have been Block and Toast which experience the largest revenue growth out of any other target competitors. The primary share loser over this period has been NCR Voyix, a legacy provider that has struggled to adapt to shifting industry demands.

While Block and Toast appear to be the dominant competitors, their head-to-head competition is less direct than the aggregate market share figures suggest. Block's customer base is predominantly composed of smaller restaurant operations, whereas Toast serves larger, more complex businesses that require deeper operational support. As a result, both companies have been able to grow their respective market shares largely without directly competing for the same customers.

Table 1

Company	2019	2020	2021	2022	2023	2024	2025	Growth Rate 2019-2024
Toast, Inc.	0.665	0.823	1.705	2.731	3.865	4.96	6.153	49.46%
Block, Inc.	4.714	9.498	17.661	17.532	21.916	24.117	23.968 (LTM)	38.61%
Lightspeed Commerce	0.077	0.133	0.221	0.548	0.731	0.909	1.080*	63.84%
NCR Voyix	6.53	6.18	7.16	7.83	8.01	2.8	N/A	-15.58%
Shift4 Payments	0.408	0.731	1.65	2.56	2.64	3.18	N/A	50.78%
Total	12.394	17.365	28.397	31.201	37.162	35.966		23.75%

1. Values listed above are in billions of dollars.

When assessing the risk and overall health of the industry, it is important to consider the factors that could threaten incumbent players. Two of the most significant forces are the threat of new entrants and substitute products, both of which remain moderate given the high switching costs associated with replacing a restaurant's existing POS and operational infrastructure. Transitioning to a new system requires a complete technology overhaul as well as the time and resources needed to retrain staff which creates a meaningful barrier that protects established players.

That said, the primary risk posed by new entrants or substitutes lies in their potential to leverage technological advancements to deliver cheaper or more effective solutions than what current providers offer. Mitigating this risk requires continued and sustained investment in research and development to ensure existing players maintain their competitive and technological edge.

Toast Financial Results

Revenue Trend and Breakdown

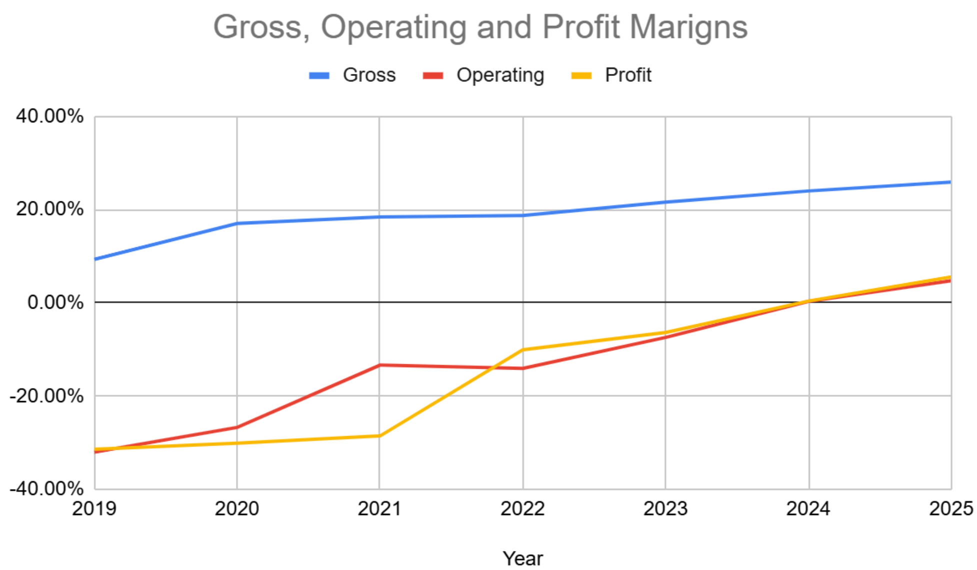
Toast's total revenues over the publicly available period reflect exceptionally strong growth, averaging 47.5% annually from 2019 to 2025. However, this trajectory has moderated to 28.33% in 2024 and 24.05% in 2025, The deceleration is consistent with the law of large numbers as Toast scales, though investors should monitor whether growth remains above industry averages. A key risk to monitor is customer acquisition growth. Approximately 82% of Toast's revenue is transaction-based, meaning a slowdown in new restaurant additions could eventually translate into slower revenue growth. The Hardware and Professional Services segment faces a similar dynamic, as it generates revenue almost exclusively from new customer additions, making the deceleration there, including a 10.45% decline in that segment's revenue growth in 2025, unsurprising.

What should be reassuring to investors, however, is that the Subscription Services segment has continued to grow as a percentage of total revenues and posted above 30% growth as of 2025. As the company approaches maturity, this segment will become increasingly critical to sustaining overall growth, and Toast's ability to cross-sell new and existing applications to its customer base will be a key determinant of its long-term competitive positioning.

Margins and Costs

Margins have expanded meaningfully since 2019, with Toast achieving GAAP profitability by 2024. Gross margins have improved from 9.32% in 2019 to 25.89% in 2025, reflecting a continued mix shift toward higher-margin products. Operating margins have followed suit, moving from -32.03% in 2019 to 4.75% as of 2025 which is a result of both gross margin expansion and disciplined cost management, with total operating expenses growing well below the rate of revenue. In 2024, revenues grew 28.33% while operating expenses grew only 4.73%; in 2025, revenues grew 24.05% against operating expense growth of just 10.82%. Profit margins similarly improved, from -31.43% in 2019 to 5.56% in 2025, driven in part by interest income, changes in the fair value of stock warrants, and income tax benefits tied to prior period losses, and expansion in other margins.

Table 2



Examining the composition of operating cost growth is also instructive given Toast's stated growth objectives. One would expect and should want to see above-average growth in R&D and Sales and Marketing, as these directly support the company's two core priorities: expanding its application suite and growing its customer base. Ideally, these expenditures would outpace growth in General and Administrative expenses (G&A), which are not directly tied to either strategic objective. This is mostly the case. On average, R&D and Sales and Marketing have grown at 37.40% and 29.63%, respectively, compared to 30.07% for G&A which is a favorable allocation that reflects disciplined prioritization of growth oriented spending.

Free Cash Flow Trend

Free cash flow is one of the most important metrics for evaluating a business from an ownership perspective, as it represents the cash available to owners after accounting for normal operational costs. Toast's free cash flow trajectory has been notably strong, improving from negative $199 million in 2020 to positive $647 million in 2025. For valuation purposes, I calculate unlevered free cash flow rather than management's reported free cash flow.

Table 3

(In Millions)	Historical Period						
	2019	2020	2021	2022	2023	2024	2025
Sales	$665.00	$823.00	$1,705.00	$2,731.00	$3,865.00	$4,960.00	$6,153.00
% Growth		23.76%	107.17%	60.18%	41.52%	28.33%	24.05%
Cost of Goods Sold	$603.00	$683.00	$1,391.00	$2,220.00	$3,031.00	$3,770.00	$4,560.00
Gross Profit	$62.00	$140.00	$314.00	$511.00	$834.00	$1,190.00	$1,593.00
% Margin	9.32%	17.01%	18.42%	18.71%	21.58%	23.99%	25.89%
Selling, General, and A	$274.00	$375.00	$792.00	$799.00	$1,115.00	$1,168.00	$1,247.00
EBITDA	-$206.00	-$208.00	-$457.00	-$264.00	-$249.00	$68.00	$413.00
% Margin	-30.98%	-25.27%	-26.80%	-9.67%	-6.44%	1.37%	6.71%
Dep & Amort	$6.00	$27.00	$21.00	$24.00	$32.00	$46.00	$67.00
EBIT	-$212.00	-$235.00	-$478.00	-$288.00	-$281.00	$22.00	$346.00
% Margin	-31.88%	-28.55%	-28.04%	-10.55%	-7.27%	0.44%	5.62%
Taxes	$3.00	$0.00	$3.00	$2.00	-$2.00	-$3.00	-$4.00
	-1.42%	0.00%	-0.63%	-0.69%	0.71%	-13.64%	-1.16%
EBIAT	-$209.00	-$235.00	-$475.00	-$286.00	-$283.00	$19.00	$342.00
Plus: Dep & Amort	$6.00	$27.00	$21.00	$24.00	$32.00	$46.00	$67.00
Less: Capex	-15	-36	-19	-33	-42	-54	-53
Less: Increases in WC		-45.00	-111.00	-110.00	-217.00	-253.00	-291.00
Unleveraged FCF		-199.00	-362.00	-185.00	-76.00	264.00	647.00

Financial Health

Turning to Toast's balance sheet, the company's financial position appears quite strong. As of 2025, Toast carries no debt and holds total cash of $1.353 billion, which exceeds total liabilities of $1.021 billion. The current ratio is a measure of a company's ability to meet near-term obligations which has consistently ranged between the mid 2x and high 4x levels, reflecting a solid ability to cover short-term commitments.

Perhaps most notable is the volume of cash and marketable securities Toast holds and generates on an ongoing basis, which allows the company to fund R&D, sales and marketing, and capital expenditures without taking on debt. It should be acknowledged that Toast has also raised capital through equity issuances, which dilutes existing shareholders' earnings. However, as of Q1 2026, the company repurchased $323 million worth of stock during the quarter alone, and the board has approved an additional buyback authorization with $587 million remaining.The repurchase authorization might suggests management views the balance sheet as sufficiently strong to support both continued investment and shareholder returns.

Management and Stakeholder Analysis

Toast's leadership team combines founder-led vision with experienced financial management, creating strong alignment between management and shareholders. As the company transitions from prioritizing rapid growth to balancing growth with profitability and capital returns, management incentives become increasingly important to investors.

Aman Narang – Chief Executive Officer & Co-Founder

Aman Narang became CEO in January 2024 after serving as Co-Founder, COO, and Co-President since Toast's founding. Prior to Toast, he spent time at Endeca, an enterprise software company that was acquired by Oracle in 2011. Narang holds both bachelor's and master's degrees in Computer Science from MIT.

From an investor's perspective, his most important attribute is his ownership stake. Narang controls approximately 3.3% of Toast's outstanding shares, a position that represents a substantial portion of his personal wealth. As a founder, the majority of his financial upside is tied directly to the long-term performance of Toast's stock, keeping his interests closely aligned with those of shareholders.

Elena Gomez – President & Chief Financial Officer

Elena Gomez joined Toast as CFO in 2021 before being promoted to President in 2025. Her background spans CFO roles at Zendesk as well as senior finance and strategy positions at Salesforce, Visa, and Charles Schwab. She holds a B.S. in Accounting from UC Berkeley's Haas School of Business.

Unlike the founders, Gomez built her ownership position primarily through stock options, restricted stock units (RSUs), and performance-based equity awards. As a result, a significant portion of her compensation is tied to Toast's financial and operational performance, as well as long-term shareholder returns.

Steve Fredette – Co-President & Co-Founder

Steve Fredette co-founded Toast alongside Narang and has played a central role in shaping the company's product strategy and technology platform. He previously worked at Endeca before its acquisition by Oracle and holds a B.S. in Chemistry from MIT.

Fredette maintains a significant ownership stake through direct holdings and family trusts. Much like Narang, a large share of his personal wealth remains tied to Toast's long-term success, giving him a strong incentive to focus on sustainable value creation rather than short-term results.

Assessment

Management appears well aligned with shareholders through a combination of founder ownership and performance-based compensation. Annual executive cash bonuses are primarily tied to Recurring Gross Profit (RGP), which encompasses Subscription Services and Financial

Technology Solutions gross profit, as well as Adjusted EBITDA. These metrics encourage leadership to balance growth with profitability rather than chasing revenue at the expense of margins.

Beyond cash compensation, a substantial portion of executive pay is delivered through RSUs and stock options that vest over multiple years. This structure keeps executives focused on long-term shareholder value, since the worth of their equity is directly linked to how Toast's stock performs.

On the whole, management quality and incentive alignment represent a genuine strength in the investment thesis. The founders have successfully scaled Toast into one of the leading restaurant technology platforms in North America, while the addition of experienced financial leadership has helped drive improving profitability, free cash flow generation, and shareholder-friendly capital allocation initiatives such as the company's recently authorized share repurchase program.

Valuation

When making an investment decision, it ultimately comes down to one question: is the company fairly or attractively priced? Given that Toast operates as a high growth company, it is more appropriate to evaluate it using the EV/EBITDA ratio rather than the standard P/E ratio. This distinction matters because the company continues to invest heavily in its future, which naturally compresses near-term profitability.

As shown in Table 4, Toast currently trades well below its historical EV/EBITDA range on a one year outlook, which on the surface suggests the stock is cheap. That said, this approach has meaningful limitations. It assumes the business today resembles the business of the past, which is rarely true for any company and is particularly misleading for Toast, where growth rates are beginning to decelerate even as margins continue to expand.

Table 4

A Discounted Cash Flow analysis offers a more complete picture. This method estimates the value of a company by projecting its future free cash flows and discounting them back to their present value, reflecting what those future earnings are worth in today's dollars. Table 5 presents the full DCF model for Toast, built on assumptions grounded in historical financials, analyst consensus, management guidance, and industry benchmarks.

Table 5

(In Millions)	Projection Period				
	2026	2027	2028	2029	2030
Sales	$7,445.13	$8,710.80	$10,104.53	$11,418.12	$12,674.11
% Growth	21.00%	17.00%	16.00%	13.00%	11.00%
Cost of Goods Sold	$5,509.40	$6,402.44	$7,376.31	$8,278.14	$9,125.36
Gross Profit	$1,935.73	$2,308.36	$2,728.22	$3,139.98	$3,548.75
% Margin	26%	27%	27%	28%	28%
Selling, General, and Admin	$1,131.66	$1,219.51	$1,313.59	$1,313.08	$1,394.15
EBITDA	$804.07	$1,088.85	$1,414.63	$1,826.90	$2,154.60
% Margin	11%	12.50%	14%	16%	17%
Dep & Amort	$81.07	$94.85	$110.03	$124.33	$138.01
EBIT	$723.00	$994.00	$1,304.61	$1,702.57	$2,016.59
% Margin	9.71%	11.41%	12.91%	14.91%	15.91%
Taxes	$14.46	$39.76	$130.46	$255.39	$302.49
	2%	4%	10%	15%	15%
EBIAT	$708.54	$954.24	$1,174.15	$1,447.18	$1,714.10
Plus: Dep & Amort	$81.07	$94.85	$110.03	$124.33	$138.01
Less: Capex	-$127.31	-$148.95	-$172.79	-$195.25	$138.01
Less: Increases in WC	-$390.26	-$456.60	-$529.66	-$598.51	-$664.35
Unleveraged FCF	1,052.56	1,356.74	1,641.04	1,974.78	2,654.47
WACC:	14.87%				
Discount period	1	2	3	4	5
Discount Factor	0.8705872111	0.7579220921	0.6598372804	0.5744458977	0.500105252
Present Value of Free Cash Flow	$916.34	$1,028.30	$1,082.82	$1,134.40	$1,327.51

Table 6 summarizes the key outputs and assumptions driving the model. The weighted average cost of capital is estimated at 14.87%, derived entirely from the CAPM framework given that Toast currently carries no debt. Revenue growth is assumed to step down from 21% in 2026 to 11% by 2030, informed by analyst expectations and Q1 2026 results, before gradually converging toward the broader industry growth range of 8 to 12%. EBIT margins are expected to continue expanding as the Subscription Services segment grows as a share of total revenue, bringing a more favorable revenue mix and putting natural downward pressure on SG&A as a percentage of sales. Depreciation and amortization, capital expenditures, and working capital were each estimated based on historical averages as a percentage of revenue or observed trends in their absolute values over time.

Table 6

Equity Value Calculation	
Present Value of FCF	$5,306.11
Terminal Value	21,256.14
Less: Total Debt	0
Less: Preferred Securities	0
Less: Non-Controlling Interest	0
Plus:Cash and Cash Equvilant	1,991.00
Implied Equity Value	$28,553.25
Current Mkt Cap	$13,470.00
Discount to Intrinsic Value	52.82%