toast

Toast Third Quarter 2025 Earnings Call - Prepared Remarks

Michael Senno, SVP Finance

Welcome to Toast's earnings conference call for the third quarter ended September 30, 2025. On today's call our CEO, Aman Narang and CFO, Elena Gomez will open with prepared remarks, which will be followed by our Q&A session.

Before we start, I'd like to draw your attention to the Safe Harbor statement included in today's press release. During this call, we'll make statements related to our business that may be considered forward looking within the meaning of the Securities Act and the Exchange Act. All statements other than statements of historical facts are forward-looking statements, including those regarding management's expectations of future financial and operational performance and operational expenditures, location growth, future profitability and margin outlook; business and investment strategy; expected growth and business outlook, including our financial guidance for the fourth quarter and full year 2025.

Forward-looking statements reflect our views only as of today, and except as required by law, we undertake no obligation to update or revise these forward-looking statements. Please refer to the cautionary language in today's press release and our SEC filings for a discussion of the risks and uncertainty that could cause actual results to differ materially from our expectations.

During this call, we will discuss certain non-GAAP financial measures, including but not limited to, non-GAAP Subscription Services gross profit and non-GAAP Financial Technology Solutions gross profit, which we refer to collectively as our recurring gross profit streams. These are the basis for our top-line guidance. These non-GAAP measures are not intended to be a substitute for our GAAP results. Please refer to our earnings release and SEC filings for detailed reconciliations of these non-GAAP measures to the most comparable GAAP measures.

Unless otherwise stated, all references on this call to cost of revenue, gross profit and gross margin, sales and marketing expense, research and development expense and general and administrative expense are on a non-GAAP basis.

Finally, the press release can be found on the Investor Relations website at investors.toasttab.com. After the call, a replay will be available on our website.

With that, let me turn the call over to Aman.

Aman Narang, CEO & Co-Founder

We delivered another great quarter with 34% top-line growth, 35% margins, and continued year-over-year growth in net location adds. Our momentum and execution thus far has us well positioned to deliver a strong 2025.

We surpassed $2 billion in ARR for the first time, and while I am proud of this milestone, I'm even more energized about where we're headed. We are an industry leader in the U.S. in our core business with a clear path to doubling our market share as we scale locations and deliver customer-focused innovation for restaurants. This success enables us to invest in our fast-growing new market segments. We will continue to expand our TAM into new verticals, new geographies, while increasing the capabilities we provide to our existing customers. This growth mindset is key to building a durable growth company that can scale to $5B and $10B in ARR and beyond. I want to thank the entire Toast team for an exceptional year so far, and I'm confident in our collective ability to keep raising the bar as we grow from here.

This quarter, we secured numerous marquee wins, including large-scale operators such as Nordstrom, TGI Fridays, and Everbowl—brands that are turning to Toast to power their next stage of growth. I'm also excited to announce an expanded partnership with Uber, making it easier for restaurants to drive guest demand and better manage off-premise sales. We also plan to support each other in the field with joint go-to-market efforts both here in the US as well as in our international markets.

At the start of the year, we laid out four key priorities:

1. Scale locations and market share in our core U.S. SMB business.
2. Demonstrate that our new markets can be material drivers of growth.
3. Increase customer adoption of our broad platform and drive differentiation through data and AI.
4. Continue to invest with discipline in our most important priorities while expanding margins over time.

Starting with #1, scaling locations in our US SMB and mid-market restaurant business.

Today, about 95% of our ARR comes from our core U.S. SMB and mid-market restaurant customers. Led by our best-in-class restaurant platform and strong go-to-market execution, we win the majority of decisions we're in, and our win rates against every major competitor are up year over year. Net adds in our core remain in the same range from a year ago. This momentum puts us on a clear path to doubling our share of locations and GPV over time.

Many of the best restaurants in the country run on Toast—from new concepts to award-winning institutions. For example, fourteen of Bon Appétit's 20 Best New Restaurants for 2025 chose Toast and more than half of all Michelin-starred restaurants in the U.S. are powered by our platform as well.

A great example is Canlis—a Seattle landmark redefining hospitality for over 70 years. After struggling with reliability and uptime, they turned to Toast for our simplicity, reliability, and hands-on support. They love that they no longer need to think about technology to deliver one of the best dining experiences in the country. In their words, *"Toast works so well we don't have to think about it."*

We're also seeing strong traction in mid-market with a steady stream of wins each quarter. As I shared earlier, Nordstrom is rolling out Toast at nearly 200 dining locations nationwide, unifying multiple concepts on one platform. TGI Fridays is moving its U.S. footprint to Toast, simplifying operations across its restaurants. And Everbowl—a fast-growing 100+ unit brand—chose Toast for our ability to deliver speed and simplicity at scale.

These wins highlight the versatility of our platform to serve restaurants of every type and size. And our platform only grows stronger with the addition of new AI-driven capabilities that I'll touch on in a moment.

Next, our second priority is demonstrating that these new market segments can be material drivers of growth.

We continue to build momentum in international markets as we expand our platform and establish the Toast brand globally. Large, well-respected multi-concept hospitality groups such as Eclective in Ireland, Caravan Group in the U.K., and Happy Belly Group in Canada have chosen Toast because they see us as a best in class solution that can help them run a better business.

We're rolling out new integrations including with Uber, we've improved our online ordering and inventory management solutions, and continue to regionalize key capabilities as we build toward the best global platform for restaurants. International SaaS ARPU is up 20% year over year, and we're confident that these investments will continue to drive both ARPU and win rates over time.

In food and beverage retail, we continue to gain traction each quarter. We recently went live with Tri County Meat Market in Texas, DeLallo Italian Market in Pennsylvania, and Nature's Best in Illinois. They all came to Toast for a modern, all-in-one platform that allows them to manage everything from thousands of inventory items to efficient checkout lanes at scale. We're expanding our sales team and deepening our retail offering with features and integrations to support our vertical strategy. At the same time, it is exciting to see customers leverage parts of our restaurant platform - including our kitchen display screens - to power fulfillment in grocery stores and bottle shops.

In enterprise, our continued investment in above-store and multi-location management capabilities is paying off. We landed our two largest deals ever this year, and our pipeline has never been stronger.

Across all these markets, our momentum is accelerating. We're confident in our path to becoming a market leader in each of these areas and building them into meaningful growth engines for Toast. Over the long term, we believe these new TAMs have the potential to surpass our core business and enable us to scale from 156,000 locations today to 500,000 locations and beyond.

Our third priority is expanding our platform adoption and driving differentiation through data and AI.

Toast was built by listening to customers — taking real problems from the restaurant floor and turning them into products that make a difference in their day to day. This customer-centric approach powers our next wave of innovation, where our unique scale and data are driving new AI products like Toast IQ and Toast Advertising.

We recently evolved Sous Chef into Toast IQ, a true AI assistant for restaurant operators. At Amici, a casual pizza and wings spot in Georgia, the team uses Toast IQ daily to analyze sales, adjust menus, and make faster decisions. As an example, it flagged a drink promo costing them up to $700 a day — and helped them fix it and build a happy hour menu that is even more effective. As they put it, Toast IQ feels like having "a personal assistant."

And that's the goal: Toast IQ gives fast answers, proactive insights, and direct actions to operators. Adoptions have been strong — since rolling out in early October, more than 25,000 restaurants have used Toast IQ over 235,000 times.

Our mission is to help our customers drive real results by making Toast IQ the intelligence platform of the future. The product gets better every day as we expand its data sources, and deepen integrations across the platform. As an example, we're also partnering with brands like Coca-Cola to help restaurants increase drink sales through data-driven recommendations — just one example of the exciting new opportunities this product unlocks.

Our marketing and advertising tools are another way we're helping restaurants grow. We started with email and SMS, then layered in AI to automate and personalize outreach. With Toast Advertising, operators can now launch campaigns across Google and Meta in just minutes, with AI-powered recommendations and clear ROI reporting.

And it's driving real impact: during their peak season, Pizza by the Sea in Florida estimated $400,000 in sales across its four locations was attributable to Toast Advertising campaigns — a more than 20x return on ad spend.

Together, Toast IQ and Toast Advertising are just the start of how we're combining AI, data, and deep restaurant expertise to make our platform smarter, more powerful, and indispensable to restaurants everywhere.

Wrapping up with our fourth priority, we're continuing to invest with discipline while expanding margins.

Our goal is to maximize long-term shareholder value by building a durable growth business that compounds ARR over time. It took us more than ten years to reach our first billion in ARR—and just two years to double it. We are a leader in our core US SMB business and have conviction that we can replicate that success across our new TAMs by using the same vertical strategy that has worked so well in our core across new verticals, new geographies, and new segments.

With strong momentum across all areas, we're on track to increase net adds in 2025 as well as in 2026. Enterprise, international, and food & beverage retail are collectively on pace to reach $100M in ARR this year, and we see the potential for each of them to grow to $1B in ARR over time.

As we scale, we are also carefully managing our margins by prioritizing what's most important to build a long term growth business. Our core business already operates at our target 40% EBITDA margin that we laid out at investor day, giving us the flexibility to invest in new growth engines. Given the size of the opportunity, our growing conviction in leadership across new markets, and our line of sight to achieving strong unit economics at scale, we're investing to accelerate growth.

We're executing against what we laid out at our Investor Day last year. We have momentum in our core, traction across new markets, expanding platform adoption, and strong execution across the business. I've never been more confident in our ability to create value for our customers and drive long-term shareholder value.

To wrap up, I want to thank our entire team, our customers, and our investors. The progress we're making this year is a direct result of our team's hard work and dedication, our customers' trust, and the support of all of our investors.

Thank you. And with that, I'll turn it over to Elena.

Elena Gomez, President & CFO

Thank you Aman and to everyone for joining us today. To start, I would also like to thank our team for another strong quarter which came in better than our expectations.

We crossed $2B in ARR in the third quarter, just two years after hitting $1B. Doubling our ARR underscores the strength and diversity of our business model - with both payments and SaaS ARR each exceeding $1B for the first time. We're proud of the milestone and sustaining strong ARR growth at scale, though we're far from done. Our management team wakes up every day with the mindset of getting to $10B in ARR over the next decade.

Starting with our core business, getting to this point took years of investment to establish the breadth of our product and go-to-market footprint. The result of these investments and our relentless focus on execution is a business with 40% margins that continues to scale. While our core business is already operating at our long-term margin profile, the incremental margins are tracking higher. That's even as we continue to invest with the goal of doubling our core market share and sustaining healthy ARR growth.

In our new growth areas, we're employing the same proven, disciplined approach to capital allocation. With growing evidence and conviction that each of these three new areas can be material businesses long-term, we're leaning into the upfront investment to build the product capabilities and go-to-market footprint to scale into a market leader in each area. We're confident we can scale efficiently and drive meaningful contributions to growth over time.

Turning to our quarterly results. ARR grew 30%, total Fintech and Subscription Gross Profit - our recurring gross profit streams - increased 34% year-over-year with a total take rate of 98 basis points across SaaS and Fintech. That's up 7 basis points from a year ago as we steadily increase adoption reflecting the growing value our platform provides our customers. Adjusted EBITDA was $176 million for the quarter, with margins expanding 5 percentage points year-over-year to 35%. GAAP operating income was $84 million.

We are consistently growing net adds year-over-year every quarter. In Q3, we added approximately 7,500 net locations and we ended the quarter with 156,000 total locations, up 23% from a year ago. We remain on track for more net adds in 2025 vs. 2024. We're focused on executing the same algorithm: sustaining consistent market share gains in our core combined with growing traction in new TAMs which sets us up well to continue to grow net adds in 2026.

SaaS ARR grew 28% year-over-year driven by location growth and a mid-single digit increase in SaaS ARPU on an ARR basis. Subscription revenue increased 29% and Subscription gross profit grew 32%. SaaS gross margin was 79%, up from 77% a year ago due to continued SaaS COGS optimization.

Payments ARR increased 31% and fintech gross profit grew 35% in the third quarter versus a year ago. GPV was $52 billion, growing 24% year-over-year. GPV per location was up slightly versus last year, due to stronger same store sales trends in the summer.

Fintech net take rate was 61 basis points, and payments net take was 49 basis points. Payments take rate increased 4 basis points from a year ago, benefiting from the same drivers we've seen all year: ongoing cost optimization efforts; small targeted pricing moves; and new products including surcharging.

Non-payments fintech solutions, led by Toast Capital, contributed $58 million in gross profit and 11 basis points in take rate. We continue to enhance our underwriting process, which unlocked incremental origination volume in the quarter. Overall, the program remains healthy and defaults remain in line with our expectations.

Excluding $31 million of bad debt and credit-related expenses, operating expenses increased 17% in Q3. We are investing in our highest priority areas to drive durable growth while driving efficiencies throughout the P&L.

Sales & marketing expenses grew 23% reflecting our healthy location growth and scaling our international and retail go to market presence. The added sales capacity positions us to gain market share faster and scale growth in these new TAMs.

R&D expenses grew 12%. Innovations like Toast IQ and Advertising are great examples of further differentiation of our core product. We're also adding capabilities to expand our product market fit across new customer segments, and seeding longer-term horizon 3 opportunities that have the potential to become new growth vectors.

Hardware and Professional Services gross profit was negative 10% of our recurring gross profit streams. We are leaning into our customer acquisition momentum to establish market share in new TAMs and continue to drive growth in the core. We're also absorbing higher tariff costs. We're doing this while staying within our guardrails to maintain healthy payback periods as we scale.

Adjusted EBITDA was $176 million, a 35% margin. Our Q3 results reflect robust topline growth, driven in part by better than expected GPV, as well as our continued focus on driving efficiencies throughout the P&L.

GAAP Operating Income was $84 million up from $34 million a year ago. That's both from the strength in Adjusted EBITDA and our disciplined approach to managing stock based compensation. Stock based comp as a percentage of recurring gross profit was 14% in Q3, down 3 percentage points versus a year ago. Free Cash Flow grew to $153 million in Q3 and $564 million on a trailing 12 months basis, nearly 100% conversion from Adjusted EBITDA.

Moving to capital allocation - year to date through the third quarter, we repurchased 1.5 million shares for $54 million dollars. We will continue to be opportunistic based on market conditions and act judiciously in support of building long-term shareholder value.

Turning to guidance. For the fourth quarter, we expect total Fintech and Subscription gross profit to grow in the range of 22% to 25% year-over-year and Adjusted EBITDA to be $140 million to $150 million.

On the back of our strong year-to-date results and momentum heading into Q4, we raised our full year outlook. At the midpoints we now expect 32% growth in Fintech and Subscription Gross Profit, and $615 million in Adjusted EBITDA.

I am extremely proud of the financial profile we've built over the last few years: we've doubled ARR while investing in the next wave of businesses to sustain that growth. Our ability to drive strong growth and expand Adjusted EBITDA margins at a healthy rate demonstrates the power and leverage of our business model which is also enabling us to invest in Horizon 2 and 3 growth areas.

We take a deliberate, gated approach to investing across our core and Horizon 2 and 3 growth areas. Our new TAMs started as small Horizon 3 bets that we gradually scaled as we gained momentum and saw initial product market fit. We have enough signal across each new TAM that we see a path to market leadership and healthy unit economics at scale. We are investing into that potential to position ourselves for success and to drive long term growth and shareholder value, while gradually expanding margins over time.

As Aman said, the strategy we laid out at investor day is working. We remain confident in our medium and long targets. Specifically for 2026, at our multi-billion dollar scale, we will sustain growth over 20% and our ambition is to exceed that. Our current expectation is that margins will be flat to slightly up year-over-year. That's underpinned by the strong core margin of 40% and conviction to invest behind our new TAMs. We are still in our 2026 planning cycle and will provide an update in February when we issue guidance.

Our commitment to disciplined capital allocation is unwavering. Our long term margin target is within our control. We are choosing to reinvest in areas we have conviction can be meaningful long-term cash flow generators and add significant shareholder value.

To close out, we had an excellent quarter and I am proud of our team for consistently delivering results that outperformed our expectations. 2025 is on track to be another year of impressive topline growth and margin expansion. Our momentum in the core is strong and with new TAMs scaling quickly, we're confident Toast is in position to compound our top-line at a healthy rate for the next decade and drive long-term shareholder value.

Now, I will turn the call back over to the operator to begin Q&A.