toast

Toast Fourth Quarter and Full Year 2025 Earnings Call - Prepared Remarks

Michael Senno, SVP Finance

Thank you, operator. Welcome to Toast's earnings conference call for the fourth quarter and full year ended December 31, 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 first quarter and full year 2026.

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

Thanks, Michael, and thank you everybody for joining us today.

I'm really proud of the Toast team for what we accomplished in 2025. We grew recurring gross profit 33%, expanded Adjusted EBITDA margins to 34%, and added over 30,000 net locations on the platform. Our core continues to grow at a rapid pace with strong incremental margins as we scale, while our emerging TAMs across retail, international, and enterprise doubled ARR in 2025.

We welcomed some amazing brands to the Toast platform - including iconic independent restaurants such as Carmines, chef Daniel Boulud's restaurants, multiple enterprise chains including Papa Murphy's, and noteworthy retailers including Meadow Lane.

Our product team released over 500 new features including Toast IQ, our conversational AI assistant. Customer feedback and adoption has been tremendous - Toast IQ not only generates reports and insights about restaurant performance, it executes tasks directly in Toast ranging from menu management to inventory updates. For example, Toast IQ can analyze and update menus, tell an operator why their Thursdays might be slow or why a certain daypart is successful, and analyze results across locations. It can also quickly answer questions like, "What events and weather should I pay attention to this week?" or "Who's working on a Friday night?" AI is also reshaping how we work internally - from how we provide customer support, to how we build software, and how we sell and market our products. This is making our teams more productive which opens up capital to invest against our most important long-term priorities.

We have strong momentum as we head into 2026. Building on top of a strong Q4, we expect another year of record net location adds and consistent ARPU growth as we execute against the priorities we laid out last year:

1. Growing market share in our core;
2. Demonstrating new markets will be material growth drivers;
3. Increasing customer adoption of our platform;
4. And, gradually expanding margins as we invest with discipline.

Longer term, if we can do these well, we are positioned to drive durable growth from over $2 billion in ARR today to $5 and $10 billion and beyond.

Starting with our first priority: growing market share in our core US SMB and mid-market restaurants.

We continue to grow market share year after year and now power 20% of SMB and mid-market restaurants in the US. This has nearly doubled over the past 3 years. We have seen success across all market types - including urban, suburban, and rural markets as well as ones that have higher and lower density of Toast restaurants. In fact, our sales productivity in our top 10 geos continues to outperform our average which shows that we have plenty of headroom to continue to gain share.

Our vertical platform across software, hardware, fintech, and networking is purpose built for restaurants and continues to get better. Over the past year we launched over 500 platform enhancements including Toast Go 3, the latest evolution of our handheld device designed to help restaurants drive throughput while elevating the customer experience and improving tips for staff. Other new releases including Toast IQ and Toast Advertising are helping customers drive efficiency and guest demand. And Toast support has been reimagined with AI with over half of all support interactions now starting digitally through an AI agent, and 70% of those never getting to a human.

Our relentless focus to improve our platform for restaurants has helped us improve win rates with new customers and build a durable referral engine where two thirds of our demand is inbound and existing customers are the largest source of referrals. And it's why many of the busiest and highly successful operators continue to choose Toast. A great example is Alicart, the group behind New York's legendary restaurants including Carmine's and Virgil's BBQ. Carmine's is one of the busiest independent restaurants in the country with over $40 million in annual sales and up to 3,000 covers per day. After 25 years with an existing provider, they decided on Toast for the depth, speed, and reliability necessary to support their scale. And their first few deployments went so well, they accelerated their Toast rollout across all locations to leverage the benefits our platform offers.

We hear stories like this from successful operators all the time, and we are committed to building the best innovation engine to help restaurants of all types and sizes stay ahead during a time when the technology landscape is evolving rapidly. We have plenty of market share in front of us and continue to invest to serve deeper parts of the TAM. For example, in

2026 we'll launch better support for non-native English-speaking operators and features to support bars, pizzarias, and membership clubs even better. These investments in our product and our best-in-class go-to-market engine supports our path to doubling market share and ARR over time.

Our second priority is demonstrating that our new markets will be material growth drivers.

2025 was a great year for our new markets. We signed our two largest enterprise customers —Applebee's and Firehouse Subs—and successfully launched Australia, our fourth international market. And for the first time, we scaled a dedicated go-to-market team outside restaurants and have seen great results in retail. **A few years in, each of these new markets is growing faster than our core was at a similar time period.** This growth combined with the size of the TAM in these new markets gives me confidence they can be material drivers of growth over the long term.

We are seeing this success because we are building on top of a proven vertical playbook. Vertical depth across product, go-to-market, and customer success drove our early success in US SMB restaurants, and we are applying the same approach when building for retail, enterprise, and international markets. We are very comfortable leaning into the product and platform complexity necessary in these markets vs taking a horizontal one-sized-fits-all approach. We are seeing customers switch from legacy on-premise solutions similar to what we saw in restaurants 10 years ago. As we continue to scale and our platform gets better, we are confident we will see even higher win rates, rep productivity, and ARPUs over time.

In **Enterprise**, our pipeline and active rollouts have never been bigger. We expanded our relationship with MTY Group and signed Papa Murphy's, a 1,000+ unit pizza chain. They chose Toast because of our flexible platform across multiple service models including QSR and casual dining as well the feature depth necessary to support large pizza chains. In 2026 we will continue to invest in the platform to support the needs of our larger customers including the launch of our drive-through product which is planned for later this year. We are confident enterprise is well positioned to continue to drive strong growth into 2026 and beyond.

Internationally, we're seeing strong location growth including great early signals from our launch in Australia last year. Customer feedback and pull has been strong, and we hear from successful restaurants across Canada, UK, and Ireland that Toast is making their businesses better. As we continue to build out support for the full platform in these markets — including the launch of our Toast Go® 3 handheld as well as inventory management — I am confident we will drive even stronger win rates and ARPUs as we scale. Over the next few years, you should expect us to continue to scale in our current markets while opening up new countries thoughtfully where we have a right to compete and win.

In **Retail**, we built out our go-to-market team last year and have seen incredible results so far. Our product can already support convenience stores, grocery chains, bottle shops, butcher shops, and more because our platform offers the feature depth necessary to support businesses with high SKU counts and complex inventory in high throughput environments. Many of these customers are coming from legacy on-prem solutions and have never experienced a cloud based solution with the platform capabilities Toast offers across point-of-sale, guest facing products, employee management, payments, capital, and inventory. Customers especially love when we can support many different concepts with a single backend across their locations - from restaurants and retail shops in a hotel to a grocery store that also has a cafe or a restaurant inside it.

A great example is La Carniceria Meat Market, a 25-location butcher and grocer who replaced guesswork with data by deploying our platform — automating inventory and invoices, and understanding their costs better. Automated SKU management cut down manual work, and their rollout was smooth thanks to our Spanish-speaking sales and support. It's a clear example of how Toast helps operators run more efficient, profitable businesses.

As we look to 2026, we're continuing to deepen the retail platform with more tailored onboarding, support, and integrations — including a new partnership with Instacart that allows retailers to sync in-store inventory with Instacart's marketplace. Our success in food and beverage retail reinforces something we've believed for a long time: our platform works well beyond restaurants. We're layering in the vertical-specific capabilities to meet the needs of different customer types, and **we are starting to see early success with retail customers outside food and beverage retail.** Just as restaurants with hybrid restaurant-retail concepts pulled us into retail, we'll use the signal from our customers and the retail go-to-market team to test into new verticals and be disciplined about where we expand.

Zooming out, our new growth markets have been incredibly successful so far and will continue to drive outsized growth in 2026 and beyond. As we gain market share and invest in our platform, we expect these new TAMs to drive strong growth and profitability just as we have in our core. And over the long term we will continue to invest to expand the opportunity - from new verticals to new countries - where we believe Toast has product-market-fit and can help these businesses run more successfully.

Our third priority is increasing customer adoption of our broad platform and driving differentiation through data and AI.

For 13 years, we've been at the center of this shift in restaurant technology from on premise to cloud. We've spent that time listening to our customers and solving their toughest problems, which has allowed us to evolve from a point-of-sale solution into a comprehensive system of record that helps them manage operations, employees, guests, and suppliers. As we've delivered more value and built out our partner ecosystem, we've seen broader attach of our platform as well as higher ARPUs.

When talking to customers, what I consistently hear is while they love the Toast platform, they don't have enough time in their week to leverage everything we have to offer. Many of them are small business owners that are stretched thin to deliver a great customer experience while managing their staff and their suppliers. They don't have enough actionable alerts and insights to make good decisions about their business in real time. And they outsource a lot of the work from marketing and demand generation to bookkeeping and accounting - work that is critical to ensuring they have a profitable business.

We believe our AI roadmap built on years of data insights can help our customers get more from the Toast platform. Toast IQ is the foundation of this strategy. Less than four months post-launch, over half of Toast locations have used it, collectively sending it over a million queries, and tens of thousands of locations use it each week. We believe this early success comes down to three things: Toast IQ is built on more than a decade of deep restaurant expertise, it's tightly integrated into the core Toast experience customers already rely on, and it's designed to take action — not just surface insights — that can help operators run key workflows faster and get more done.

We're seeing this impact firsthand with customers like Alicart, an early Toast IQ adopter that now uses it daily. Toast IQ helps their team quickly make decisions and turn hours of manual analysis into clear, actionable insights in just minutes. Recently, the team used Toast IQ to identify menu combinations to boost check sizes - helping them spot opportunities to improve service and drive sales at some of the busiest restaurants in the country.

We're still in the early stages of what AI will enable. Today customers are using it to get support, analyze data, and make backend configuration changes such as updating menus or generating content to build an email campaign. We're investing for Toast IQ to evolve from an assistant, to automating workflows, and eventually to running a team of agents that will handle more of the work restaurants have to do manually today. For example, we expect Toast IQ to run workflows like operating within a budget, to optimize marketing spend, or to understand inventory levels and get ahead of an out-of-stock scenario and then place an order from approved vendors. Over the long term, we expect these AI agents to start to own whole functions from marketing, to managing payroll and tax, or accounting and bookkeeping. We believe because our data powers much of this work, we are uniquely positioned to both do it better and cheaper.

Our fourth priority is continuing to invest with discipline in our most important priorities while expanding margins over time.

We're operating from a position of strength. We have achieved our medium-term margin targets including 40% margins in our core ahead of schedule. I have confidence we can both innovate and grow while working towards our long-term margins of 40%-plus by holding a high bar on our execution and our capital allocation.

I think we have an opportunity to build a much more material business over the next decade that can both have a much bigger impact for our existing customers and expand the opportunity across new markets where we are seeing great early success. I am committed that we will be disciplined on how we invest and only lean into our biggest and highest conviction opportunities where we can build differentiated and highly profitable businesses that deliver significant shareholder value.

My conviction ultimately comes from our incredible team of Toasters who care deeply about innovating on behalf of our customers. I want to thank each of them for their dedication and commitment to Toast. I also want to thank our customers and investors for your continued support. We had a great 2025, and we are confident in our momentum and our plans heading into 2026.

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

Elena Gomez, President & CFO

Thank you Aman and to everyone for joining us today. I also want to thank our team for another successful quarter and for the continued execution that led to our record performance throughout 2025.

Our results showcase the strength of our business model in what was another outstanding year for Toast. Net adds **increased every quarter** versus a year ago, and we added a record 30,000 net locations in 2025, ending the year with 164,000 locations. ARR grew 26% and our recurring gross profit streams increased 33% for the year - an incredible accomplishment at our scale with over $2 billion in ARR and $195 billion in payment volume in 2025.

On top of the strong top-line momentum, we are efficiently scaling the business through disciplined capital allocation and ongoing cost management. In 2025, we delivered Adjusted EBITDA of $633 million and Free Cash Flow of $608 million. GAAP operating income was $292 million, up from just $16 million a year ago, driven by our strong Adjusted EBITDA and tight management of stock-based compensation.

We enter 2026 in a strong financial position, enabling us to offensively lean into our key growth initiatives. With a path to double market share in our core and accelerate expansion in our new TAMs, we are confident that continuing to invest behind these opportunities will lead to sustained top-tier growth for several years and create significant shareholder value.

Turning to our fourth quarter results. Our recurring gross profit streams increased 28%. Total monetization, measured by our recurring gross profit as a percentage of GPV, hit 98 basis points. That's a 5 basis point increase from a year ago, reflecting our growing share of wallet and the increasing value we provide our customers.

We added approximately 8,000 net locations in the quarter. We're consistently gaining market share in our core with increasing contributions across our new TAMs as they scale. Underpinning the location momentum across the business is our best-in-class vertical-SaaS platform and local go-to-market execution.

SaaS ARR and Subscription revenue each grew 28% year-over-year. We're complementing our strong location growth with consistent mid-single digit increases in SaaS ARPU on an ARR basis. SaaS ARPU in our core is growing even faster than total SaaS ARPU driven by customers continuing to adopt more products across the platform.

Subscription gross profit increased faster than top-line at 33% with SaaS gross margins expanding 300 basis points year-over-year to 80% in Q4. In addition to ongoing efficiency efforts across the business, the early benefit from leveraging AI to transform our customer support experience is contributing to margin expansion.

Our SaaS net retention rate remained in a healthy range at 109% in 2025, led by solid contributions from upsell and location expansion from existing customers.

Payments ARR grew 24% and fintech gross profit grew 25% in Q4. GPV was $51 billion, up 22% year-over-year with Q4 GPV per location down 1% versus last year.

Fintech net take rate was 58 basis points. Payments take rate increased 2 basis points from a year ago to 48 basis points. We continue to drive year-over-year take rate expansion from cost optimization efforts, new products, and ongoing price optimization, even after lapping the benefit from the September 2024 pricing adjustments.

Non-payments fintech solutions, led by Toast Capital, contributed $51 million in gross profit and 10 basis points in take rate. Overall, the program continues to grow at a steady clip and defaults remain consistent and well within our risk guardrails.

Hardware and Professional Services gross profit was negative 12% of our recurring gross profit streams. In addition to capitalizing on our customer acquisition momentum, we are absorbing higher tariff costs. Our strong overall unit economics and scale enable us to do this while maintaining healthy payback periods.

Moving to expenses. We continue to balance investing in our highest priority initiatives across go-to-market and product while driving efficiencies across the business. Total full year opex, excluding bad debt and credit-related expenses, grew 15% - providing 8 percentage points of operating leverage.

In Q4, sales & marketing expenses increased 21%. We're investing to support our market share gains in the core, expanding our account management team, and scaling the international and retail go to market teams to accelerate our progress. R&D increased 7% as we invest in product differentiation and add capabilities to expand our product market fit across our new growth markets.

Adjusted EBITDA grew 47% to $163 million, a 32% margin. Stock-based compensation as a percentage of recurring gross profit was 12%, down nearly 5 percentage points versus a year ago. That contributed to GAAP Operating Income more than doubling to $85 million.

We've dramatically expanded Adjusted EBITDA over the last few years, reflecting the strong unit economics of our business and focused capital allocation. Dollar-based payback period for our portfolio remained in the mid-teens months in 2025, consistent with the last few years.

Our new TAMs represent significant ARR opportunities and our early success and strong customer signal give us confidence in our right-to-win. Payback periods across our new TAMs are above the core today given we are earlier in building our go-to-market and product offering. As we scale and mature in these areas, we are confident each one is on a path to under 20 months.

We have a proven track record and clear roadmap to improve payback periods. In the core, payback dropped from 22 months in 2019 to 14 months in 2023. During that time, we expanded our product offering to increase ARPU and built the flywheel effect - growing referrals and scaling the go-to-market motion to increase rep productivity. We also enabled our team with customer acquisition guardrails that balance efficiency and win rate. Since 2023, we've held core paybacks steady and we believe operating in this range provides the right balance of growth and discipline, and supports our long-term margin profile of over 40%.

We are taking the same approach in our new TAMs - expanding product capabilities to increase win rates and ARPU, and scaling go-to-market to build the flywheel. Our near-term priority is investing to gain share. Over time, we have a clear path to optimize and drive efficiencies in the unit economics, as we've done in the core. These new areas also leverage our core platform and centralized functions, giving us confidence that at scale these new TAMs will drive meaningful profitability.

Moving to capital allocation. We've repurchased approximately 8 million shares for $235 million since the inception of our buyback authorization in 2024, including 3 million shares for $107 million in 2025. Returning capital to shareholders is an important part of our approach to driving long-term shareholder value and the Board has approved a $500 million increase to our share repurchase authorization. We do not have a specific timetable to complete the authorization and will maintain the same approach to buybacks, opportunistically repurchasing shares based on market conditions to support long-term shareholder value.

Turning to guidance and our outlook for the year ahead. Aman and I have highlighted our strong momentum across the board, and our 2026 outlook builds on this trajectory. We remain well positioned to grow net location adds in 2026 compared to 2025 and sustain mid-single digit SaaS ARPU growth on an ARR basis. For the full year, we expect 20 to 22% growth in our recurring gross profit streams and Adjusted EBITDA of $775 to 795 million, implying margins are slightly up year-over-year, consistent with the expectation we shared last quarter. In addition to the investments we're making in future growth and higher tariff costs, our guidance also includes approximately 150 basis points of negative impact from higher memory chip costs for our hardware. This headwind emerged since we shared our initial expectations last quarter with memory costs increasing from the surge in global demand for chips. We expect the cost pressure to be weighted toward the second half of the year as inventory with the higher cost parts roll out. We anticipate the market to stabilize over time. And while near-term hardware costs will be elevated, this does not structurally change our long-term financial profile.

Over the past few years we've demonstrated the power and leverage in our business model - rapidly expanding margins to hit our medium-term target faster than expected while sustaining over 30% growth, investing in product innovation and building the next set of growth levers for the company.

We are positioning Toast to sustain high growth for the next 5 to 10 years and have high conviction and strong signal across our key growth opportunities. As we move through 2026, our bias is toward re-investing potential top-line upside to go even faster on our growth initiatives, including new TAMs, product and AI investments and seeding future growth bets.

Our rigorous capital allocation approach is unchanged. We'll only invest where the customer signal and data warrant going faster. We are confident delivering durable, compounding growth with the incredible leverage and cash flow generation in our business model will maximize long-term shareholder value.

Turning to our first quarter guidance. We expect the same seasonal patterns in 2026 with Q1 being lighter quarters for both net adds and GPV compared to the rest of the year. That's reflected in our Q1 guidance for total Fintech and Subscription gross profit growth of 22 to 24% year-over-year and Adjusted EBITDA of $160 to 170 million.

To wrap up, we are executing across the board - growing our core, expanding our TAM, and maintaining healthy margins as we scale. Heading into 2026, we're laser focused on sustaining our momentum and continuing to execute at a high level across the business.

We are incredibly excited about what lies ahead for Toast, and well positioned to capture the massive opportunity ahead. Now, I will turn the call back over to the operator to begin Q&A.