toast

Toast Second Quarter 2026 Earnings Call - Prepared Remarks

Michael Senno, SVP Finance

Thank you. Welcome to Toast's second quarter 2026 earnings call. Toast's CEO, Aman Narang and CFO, Elena Gomez will open with prepared remarks followed by Q&A.

Before we start, I'd like to remind everyone that today's call may include forward-looking statements, which are subject to risks and uncertainties and reflect our views and assumptions only as of today. These forward-looking statements include expectations around financial and operational metrics, products, business and investment strategy, and guidance. Actual results may vary significantly, and we expressly disclaim any obligation to update the forward-looking statements made today. For a detailed discussion of risks, please refer to the cautionary language in today's press release and our SEC filings.

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.

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

Aman Narang, CEO

Thanks, Michael, and thank you all for joining us today. We had another great quarter! In Q2, we grew recurring gross profit streams over 28% and expanded GAAP Operating Income margins to 26%.

We had a record 9,500 net location adds in the quarter - 1,000 more than our previous high watermark. Our core business continues to scale, our new markets are growing rapidly, and we're reinventing our platform with AI through agents and software working together to drive real business outcomes for customers. For example, Toast IQ Grow, our marketing agent, is the fastest growing product we have ever launched, and it's giving us more conviction in our AI opportunity and its potential to scale ARPU over time. I'm so thankful to our incredible Toast team, who continue to execute and deliver at a very high level.

We're excited to announce a number of notable new customers to Toast across the different market segments we serve. In our core business, we welcomed Kung Fu Tea, a brand with over 300 locations. In enterprise, we're thrilled to become an endorsed provider by leading hospitality brand Best Western to continue our momentum across hotels. And internationally, we expanded our relationship with TGI Fridays in the UK. In addition to this momentum across our restaurant segments, in retail we continue to see really strong traction including our very first gas stations where we are processing fuel payments for the very first time.

We've had a great first half and our top priorities heading into the back half of 2026 remain unchanged:

1. Expand what Toast can do for customers with AI - from software to an agentic platform that takes on critical work and delivers business outcomes for customers.
2. Expand the markets we serve.
3. Reinvent how we work with AI to accelerate our most important goals and drive durable growth.

We are well positioned as a vertically integrated platform across software, hardware, payments, and lending. Customers recognize the role we play as their most important technology partner and are looking to us to help them take advantage of the opportunity AI creates. I continue to believe executing against these priorities sets us up to scale Toast to $10 billion in ARR and beyond. Let's jump into the priorities.

Priority 1: Expand what Toast can do for customers

Toast has spent 14 years evolving from a point of sale system to a system of record - software that helps restaurants manage their operations, staff, guests, and suppliers. But many of our customers don't have the time to leverage everything Toast offers and end up outsourcing important functions - functions such as marketing, payroll, and bookkeeping. With AI, we are showing that we can take on some of that work and do it even better.

Digital marketing is the first agentic workflow we launched and we have seen tremendous success thus far. In fact, ToastIQ Grow is on track to become the fastest growing product to $10M in ARR. The early customer reception reinforces that we're solving a real problem and have a large opportunity to monetize our AI offerings.

Toast IQ Grow brings together the tools and capabilities to improve a customer's website, SEO, digital ordering, and social presence, leveraging the customer's data to build effective marketing campaigns that drive better guest conversion. I'll give you an example. Spirits Food & Friends is a family-owned restaurant in Louisiana that started with Toast in 2025, consolidating more than 10 disparate systems onto a single platform across POS, payroll, scheduling, and more. Now they're using Toast IQ Grow to power their marketing. For the first time ever, they are segmenting marketing campaigns using their data and are able to connect these campaigns directly to sales. As a result, they have not only cut their monthly agency spend by 70%, they've also generated over $100,000 in marketing-attributed sales in just under two months.

We are uniquely positioned to bring the benefits of Toast IQ Grow to restaurants across our platform. We can optimize the full revenue cycle: the digital presence that gets restaurants discovered, drives orders, and reaches new guests through customized advertising; the point-of-sale system that captures transactions in store and online; and the multi-channel marketing engine that brings guests back. Fueled by transaction data, we know what guests ordered, how often they return, and when they stop coming back. We know the restaurants too: the sales trends, the slow nights, and the overall capacity. Toast IQ Grow will use all of that to drive guests back across email, text, push notifications, and social, moving us toward personalized one-to-one marketing at scale. And because we power the point of sale, we can close the loop with each campaign tied directly to the orders it drives.

As you can see our success with Toast IQ Grow comes down to two things: data and context, that is the foundation of our Toast IQ ecosystem. First, on data. As a customer's system of record, Toast understands how it operates - sales, guest preferences, scheduling, order flow, and menu changes are recorded as they happen.

But data alone isn't the advantage. The context from that data, and knowing how to read it, is. Over 14 years, we've watched good and bad operators run their businesses, long enough to learn what they do, and how the best ones think and adapt. We know what a smart menu change looks like versus a bad one, when a staffing pattern signals trouble, and which pricing moves hold up in a given market.

Over time, we plan to build on Toast IQ Grow and roll out a series of agentic products on top of our software platform using our data and context advantage. This opens up a market opportunity beyond software. Marketing, scheduling and payroll, and bookkeeping and tax are services restaurants often pay for today, and in many cases, they're spending a multiple of what they spend on software. Longer term, imagine a series of agents across these services. Working in concert, they'll be able to build a restaurant's projected demand, look at food cost and availability, labor schedules, and projected guest patterns to drive suggestions that improve profitability. That's an incredibly exciting future, especially in an industry known for slim margins and long hours.

Priority 2: Expand the markets we serve

In our core business, our sales team continues to drive strong win rates. We're gaining GPV share faster than any other major provider in our space. Kung Fu Tea is a great example of a growing brand that chose Toast because they saw us as a leader and an innovative partner that will help them invest in automation and surface actionable intelligence to keep them a step ahead.

Across our new TAMs - enterprise, international, and retail - the vertical playbook that built our restaurant business - product depth, operational expertise, and local go-to-market - is working just as well. In fact, ARR in each of the new TAMs is both larger than the core was and scaling faster than the core did at the same stage of maturity.

Internationally, we expanded our partnership with TGI Fridays to the UK. They are one of dozens of customers that have locations with us across multiple countries now. These operators tend to be in the largest global cities around the world where average restaurant sales are higher which is best aligned with our value proposition. As we expand Toast to more of these tier 1 markets, I am confident we can continue to drive durable growth with strong payback periods.

In enterprise, we have momentum across the market - in restaurants, hotels, as well as sports and entertainment venues. We're excited to become an endorsed food and beverage vendor for Best Western, giving us the opportunity to go after the thousands of hotel restaurants they have across the US and Canada. Sports and entertainment is a large TAM in the enterprise space, estimated to be a $500M ARR opportunity in the US alone. These customers - across stadiums and corporate dining environments like schools, museums, and theme parks - represent an adjacent market to the traditional restaurant TAM we serve, and we have roughly doubled our location count in this market over the past year. It's brands such as VenuWorks, whose portfolio of arenas and stadiums include the Ford Center, which runs on Toast; or Alaskan tour company Allen Marine Tours, running our Toast Go 3 devices on their excursion vessels.

Next shifting gears to retail, we continue to see great progress here as well, with ARPUs that are closest to our core business. We've doubled our retail sales capacity over the last year and we expect that to continue to scale to meet the market opportunity we see. Today, we're primarily targeting grocery, convenience stores, and bottle shops. Grocery remains a priority for us given this part of the market has particularly attractive GPV and ARPU. We also recently launched fuel payments, bringing our first few gas-station convenience stores onto the platform, a large opportunity for us over time.

We're also testing into other parts of the broader retail TAM and will expand further where we see product market fit. Internally, we talk a lot about how Toast emerged as a leading provider for restaurants over the past decade, and how we have a broader opportunity to not just scale within restaurants but support local businesses of all types with our platform. Over time, you should expect to see us launch in more sub-verticals just as we have within grocery, convenience stores, and bottle shops.

Priority 3: Reinvent how we work, scale with AI, and invest in durable growth

We're delivering world class growth and margin at scale - the result of decisions we've made over time to lean into growth opportunities while simultaneously driving efficiency across the business.

Our core growth algorithm continues to deliver great results. We're gaining market share, increasing ARPU, and our new AI offerings open up more opportunities to scale ARR over time. The margins in our core business are already over 40%, and we expect the margin to continue to scale and be meaningfully higher longer-term.

In our new TAMs, we're scaling quickly and on a path to nearly double ARR to $200M this year. Given the strong market demand and the progress we have made on our unit economics, we are investing behind them to scale faster and expect them to be even larger drivers of growth over time. In addition, we're also seeding longer-term bets - in areas such as consumer and new retail TAMs - where our scale and platform advantage gives us a unique opportunity to compete and win. Given these are earlier stage opportunities, we will be disciplined in how we invest and will keep you updated as they progress.

As we have shared with you before, we want to compound this business over time to $10B in ARR and beyond. As margins continue to scale in our core business, we will remain disciplined in how we invest back into our newer TAMs and emerging bets, and apply the same rigor around capital allocation that got us here. I want to thank every Toaster for their dedication and commitment to Toast. We would not be here without all of your work. And thank you to our customers and investors for your continued support as well. With that, I'll turn the call over to Elena.

Elena Gomez, President & CFO

Thank you Aman and everyone for joining us today. I want to start by recognizing our team - Q2 came in ahead of expectations across the board, and our results reflect the consistent execution happening throughout the company every day.

We posted strong top and bottom line results in the second quarter. ARR grew 25% and our recurring gross profit streams increased 28% year-over-year. Adjusted EBITDA grew to $221 million dollars and GAAP Operating Income was $152 million dollars, a 26% margin. On a GAAP basis, we are operating above Rule of 50, with recurring gross profit growth plus operating margin reaching a high of 57% in 2Q, demonstrating the strength of our business model and persistent focus on balancing durable growth and profitability.

We added a record 9,500 net new locations in Q2, growing total locations 22% from a year ago to approximately 180,000. Our net add momentum reflects demand for the Toast platform and the strength of our go-to-market execution across our core and new TAMs.

The breadth of our platform and value we provide customers is also driving sustained growth in monetization. Total take rate - measured by recurring gross profit as a percentage of GPV - was 98 basis points in Q2, up 5 basis points from a year ago.

SaaS ARR grew 27% year-over-year, driven by location volume and consistent mid-single digit ARPU growth. Subscription Gross Profit increased 32%, outpacing subscription ARR and revenue growth, benefiting from continued margin expansion. SaaS gross margins were up approximately 240 basis points year-over-year from ongoing optimization efforts, including leveraging AI to transform customer support.

Payments ARR grew 23% and fintech gross profit increased 26% in the second quarter versus a year ago. GPV was $61 billion dollars, up 22% with GPV per location flat. In the core, GPV came in better than expected, with strong same-store-sales trends throughout the quarter, including a modest benefit from the World Cup at the end of June.

Fintech net take rate was 59 basis points with payments take rate at 50 basis points. Payments take rate grew year-over-year from the same levers we've seen over the last several quarters: adoption of new products, cost optimization efforts, and small targeted pricing moves.

Non-payments fintech solutions, led by Toast Capital, contributed $57 million dollars in gross profit and 9 basis points to take rate. Customer demand for Capital remains strong, and defaults remain within our expectations thanks to our data advantage and disciplined underwriting approach.

Moving down the P&L, Hardware and Professional Services gross profit was negative 11% of our recurring gross profit streams. During the quarter, we received a tariff refund of approximately $10 million dollars that was not contemplated in our Q2 guidance. Based on the current landscape, this represents the bulk of the refunds we expect to receive.

With respect to the dynamic memory market, we've taken several mitigation steps to manage hardware COGS and our supply chain and have already reduced the memory cost impact for 2026 and 2027 versus our original expectations. A few examples of actions we've taken: leveraging earlier generations of our hardware; transitioning certain hardware to lower cost memory; and opportunistically buying at attractive prices in the spot market to complement our direct vendor relationships.

We'll continue to pull these levers and evaluate other areas to lower costs, while meeting customer demand and maintaining our best-in-class hardware. When the memory market stabilizes, we're going to come out with structurally better hardware margins than before thanks to the optimization work we're doing across hardware product costs and supply chain.

Operating expenses increased 19% from a year ago, excluding $29 million dollars of bad debt and credit-related expenses. Our investment priorities remain consistent: fueling continued share gains in the core, scaling our new TAMs, building the AI product capabilities that will differentiate Toast for years ahead, and seeding longer-term bets.

Sales & marketing expenses increased 22%, reflecting incremental investments to support our sustained strong location growth. In the core, we're growing our upsell and account management teams, and going deeper across sub-segments of the TAM like non-native English-speaking customers. Plus we're increasing our go-to-market presence across new TAMs.

R&D expenses grew 23%. We're investing to deepen the product capabilities that matter most: our agentic platform, vertical-specific innovations in each new TAM, and AI tooling across the organization to improve productivity. The early results with products like Toast IQ Grow give us confidence in our right to win when we harness our data and AI capabilities to do more for our customers.

In Q2, Adjusted EBITDA grew 38% to $221 million dollars and margins expanded 240 basis points to 37%. This reflects strong topline execution, continued discipline across the cost structure, and the tariff refund benefit.

Free Cash Flow was $130 million dollars in the second quarter, down versus a year ago from our strategic decision to acquire and hold more hardware inventory in the near-term. We expect the conversion of Adjusted EBITDA into Free Cash Flow to improve in the back half of 2026. Over time, we expect to see a corresponding benefit to Free Cash Flow, with higher conversion rates, when we choose to scale down to more normalized inventory levels.

GAAP Operating Income was $152 million dollars and GAAP EPS was 26 cents, both nearly doubling from a year ago. We're complementing strong growth with leverage down the P&L, reflecting disciplined expense management, including stock based compensation, and a lower diluted share count. SBC was 10% of recurring gross profit, down 400 basis points from a year ago, a function of disciplined equity grant practices and lapping the elevated grant values following our IPO.

Year-to-date, we repurchased over 19 million shares for $486 million dollars. Approximately $100 million dollars remains on our share repurchase authorization. We will continue to opportunistically buy back shares based on market conditions to support long-term shareholder value.

Turning to guidance. For the third quarter, we expect total Subscription and Fintech gross profit to grow 22 to 24% year-over-year and Adjusted EBITDA to be $210 to $220 million dollars.

On the back of our strong first-half results, we're raising our full-year 2026 outlook. We now expect recurring gross profit to grow 23 to 25% and Adjusted EBITDA to be $805 to $825 million dollars. We strategically chose to reinvest the tariff refund into key growth initiatives and to seed long-term bets. As a result, we're increasing our full year Adjusted EBITDA guidance by less than the 2Q beat.

Let me provide some context on our guidance and how we're managing the business for the long term.

We're building a generational company that compounds at top-tier growth rates over the next 5-10 years. We have a tremendous runway in front of us across core and Horizon 2, and the opportunity set to build new S-curves keeps growing as we scale and expand. We remain disciplined capital allocators and manage our investments across these multiple horizons.

The core business is horizon one with a proven growth algorithm and strong cash flow generation. It operates at Rule of 60 with over 20% growth and over 40% margins. We're balancing ongoing efficiency gains with investments in AI products to unlock the significant opportunity to do more for customers. Deploying AI tooling internally will unlock more efficiency and productivity gains as we automate work and the teams reimagine how they operate. This positions us to sustain Rule of 60 in the core with healthy growth and ongoing margin expansion, on the path to meaningfully higher margins over time.

New TAMs - International, Enterprise, and Retail - are Horizon 2. We expect total ARR to nearly double to $200 million dollars this year and each is on a path to healthy unit economics at scale. Given the positive signal, we're investing to scale even faster and accelerate our path to be a market leader in each. With the potential for billions of ARR across these businesses and high terminal margins given the leverage they get from our core, we're confident these investments will have significant ROI.

Lastly, we're seeding longer-term horizon bets like consumer and other retail verticals. As we scale and add capabilities, our right to win across more areas of local commerce expands. Our goal is for these businesses to become key growth drivers for the company 3 to 5 years out. We'll take the same gated approach to incubating them like we did with retail and international, only deploying more capital as we find product-market fit and meet certain success criteria. If we don't see success over a period of time, we'll pull the investment back and either redeploy to the next opportunity or expand margin.

With our momentum and the opportunities ahead, we believe reinvesting upside into long term growth areas with high potential ROI is the best path to maximize our long-term enterprise value. In 2026, we're managing to modest margin expansion, consistent with the framework we laid out coming into the year and reiterated with today's guidance. We plan to continue operating with this general framework focused on sustained growth and gradual margin expansion as long as our investments are meeting our expectations. That keeps us on a path to 40%-plus long-term Adjusted EBITDA margins, with the timing firmly in our control. With the strength of our core and confidence in the margin potential in new TAMs, we believe there's a path to a much higher margin profile over time.

The first half of this year was a strong chapter for Toast. We're entering the back half with momentum and confidence in where we're headed, and we're incredibly excited about the opportunity ahead.

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