

## **Toast Inc.**

### **Investment Thesis 2026 03 08**

Toast's technology platform supports the operational needs of restaurants and food and beverage retailers across a range of formats, sizes, and stages of growth. Its proprietary software powers a single platform of vertically integrated solutions that supports daily operations, employee workflows, and guest engagement. The platform is designed to serve as a central operating system with solutions that span point-of-sale, digital ordering and delivery, labor and workforce management, payroll, inventory and supply chain tools, marketing and loyalty, financial management, and related services. In essence, Toast's platform can be a comprehensive foodservice management system. Toast's primary market is mid-sized restaurants. Their solutions address a broad range of restaurant concepts including bar and lounge, cafe and bakery, casual dining, food truck, fine dining, hotel restaurant, and catering and events.

Toast's revenue, earnings, and number of adopters all have strong growth. Toast has been successful in expanding its customers' adoption of additional applications once they have adopted Toast's point-of-service software and hardware. This grows revenue and earnings. However, Toast's primary growth engine currently is the expansion of the number of locations using Toast products. In fiscal 2025, total locations increased 22% year over year to approximately 164,000. In fiscal 2025 net cash provided by operating activities was \$661 million compared to \$360 million in fiscal 2024 (an increase of 83.6%). Fiscal 2025 free cash flow was \$608 million compared to \$306 million in fiscal 2024 (an increase of 98.7%). Major new customers landed in 2025 include:

- Applebee's is implementing Toast POS terminals, Toast Go handhelds, Kitchen Display Systems, and Restaurant Management Suite Enterprise at locations nationwide.
- Topgolf.
- Hilton Hotels – Toast expanded to over 500 Hilton Hotels locations, enhancing its presence across diverse hospitality segments.
- Ascent Brands (Perkins & Huddle House), encompassing 500 Perkins and Huddle House locations.

Going forward, management believes there is a significant opportunity to expand outside of the United States as well as to expand the types of customers Toast serves. In 2025 they entered the Australian market.

### **Prospects over the next 9 to 12 months**

Analysts' average price target for TOST is \$38.38, with a low of \$25 and a high of \$49. I have a fair value of \$36.76 on the stock. My price assumes an earnings growth rate of 20%, a current EPS of \$0.56, and a PE ratio of 27.5. This is not a large position in our portfolio, and, long term, I see this as a trade. That said we recently added to our position on a pullback in the stock price rooted in the panic related to the future of software stocks in the age of AI. If the stock reaches my fair value, I will likely sell our position.

