

# TOST Earnings Call Transcript

**Date: 2025-11-04**

Operator: Good afternoon. My name is Danielle, and I will be your conference operator today. At this time, I would like to welcome everyone to Toast's Third Quarter 2025 Earnings Conference Call. Today's call will be 45 minutes. I'll now turn the call over to Michael Senno, Senior Vice President of Finance. You may begin your conference.

Michael Senno: Thank you. Welcome to Toast earnings conference call for the third quarter ended September 30, 2025. On today's call are 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 the 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](https://investors.toasttab.com). After the call, a replay will be available on our website. And with that, let me turn the call over to Aman.

Aman Narang: Thanks, Michael, and thank you, everybody, for joining us this afternoon. 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'm proud of this milestone, I'm even more energized about where we're headed. We are an industry leader here 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 for existing customers. This growth mindset is key to building a durable growth company that can scale to \$5 billion and \$10 billion 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 U.S. as well as in

our international markets. At the start of the year, we laid out 4 key priorities. Number one, scale locations and market share in our core U.S. SMB business; two, demonstrates that our new markets can be material drivers of growth; three, increased customer adoption of our broad platform and drive differentiation through data and AI, and lastly, continue to invest with discipline in our most important priorities while expanding margins over time. Starting with number one, scaling locations in our U.S. 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 remained in the same range from a year ago, and 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, 14 of Bon Appetit 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've turned to Toast for our simplicity, reliability and hands-on support. They love that they no longer need to think about the technology to deliver one of the best ending experiences in the country. In their words, Toast works so well, we don't even 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 restaurant and Everbowl, a fast-growing 100-plus 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 at 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. So moving on to our second priority, demonstrating that the new market segments can be material drivers of growth. We continue to build momentum in international markets as we expand our platform and establish 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 the CS is 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 towards 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 Markets 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's exciting to see our customers leverage parts of our restaurant platform, including our kitchen display screens, the power fulfillment in grocery stores as well as bottle shops. And lastly, in enterprise, our continued investment in the upshore and multi-location management capabilities is paying off. We landed our 2 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 become 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. Next, 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 turn 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 [indiscernible] into Toast IQ, a true AI assistant for restaurant operators. At Amici, a casual pizza and wing 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 help 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 assistance. And that's the goal. Toast IQ gives fast answers, proactive insights and direct actions to operators. Adoption has been strong. And since rolling it out in early October, more than 25,000 restaurants have used Toast IQ over 235,000 times so far. 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 the data sources and deepen integrations across the platform. As an example, we're also partnering with brands like The 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 e-mail 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 is driving real impact. During the peak season, Pizza by the Sea in Florida estimated \$400,000 in sales across its 4 locations, which was attributed to Toast advertising campaigns, a more than 20 times 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. And wrapping it 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 10 years to reach our first \$1 billion in ARR and just 2 years to double it. We are a leader in our core U.S. 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 2026. Enterprise, international and food and beverage retail are collectively on pace to reach \$100 million in ARR this year, and we see the potential for each of them to grow to \$1 billion ARR over time. As we scale, we're 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 our Investor Day, giving us the flexibility to invest in new growth engines. Given the size of the opportunity, our growing conviction and 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 as well as 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 of course, the support of all of our investors. Thank you. And with that, I'll turn the call over to Elena.

Elena Gomez: 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 \$2 billion in ARR in the third quarter, just 2 years after hitting \$1 billion. Doubling our ARR underscores the strength and diversity of our business model with both payments and SaaS ARR each exceeding \$1 billion 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 \$10 billion 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 3 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 versus 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 rate 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. Nonpayments 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 and 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 towns 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 top line 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-month basis, nearly 100% conversion from adjusted EBITDA. Moving to capital allocation. Year-to-date through the third quarter, we repurchased 1.5 million shares or \$54 million. We will continue to be opportunistic based on market conditions and act judiciously in support of building long-term shareholder value. Now 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 midpoint, we now expect 32% growth in fintech and subscription gross profit and \$615 million in adjusted EBITDA. I'm 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 TAM started as a small Horizon 3 bet 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-term targets. Specifically for 2026 at our multibillion-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 we'll 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'm proud of our team for consistently delivering results that outperform our expectations. 2025 is on track to be another year of impressive top line growth and margin expansion. Our momentum in the core is strong. And with new TAM scaling quickly, we're confident Toast is in a 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.;

Operator: [Operator Instructions] Your first question comes from the line of Josh Baer from Morgan Stanley.

Josh Baer: Congrats on a strong quarter. I wanted to ask about GPV per location, which was up slightly year-over-year, I think, better than expected. Wondering how much of that was driven by mix, so just lower mix of customers in more pressured parts of the market or maybe -- and/or how much is coming from Toast customers just outperforming peers? And if that is part of the case, just wondering if you -- what kind of data do you look at? Is it more a selection bias as far as the customers that you land? Or how much is it your actual technology increasing sales?

Aman Narang: Yes. Thanks for the question, Josh. We saw in Q3 and the summer was GPV per location exceeded expectations. And as we look at October, I think it normalized a little bit. But overall, it's in line with what we expected. I think certainly, our platform, a big part of what we build is to help restaurants run a more profitable and more successful business. And so a lot of the investments we continue to make in handheld, for example, in [indiscernible] is an example of that to help restaurants run a better business. And same-store sales, I think, have been in a balanced place year-over-year. So nothing that has dramatically changed.

Operator: Our next question comes from the line of Will Nance from Goldman Sachs.

William Nance: I think, obviously, really nice results tonight. You talked about a clear path to doubling your market share in core SMB. And I think there's been really heightened focus on competition recently. And honestly, probably as a reaction to how much you yourselves have raised the bar on how to approach this market, pretty much every competitor has doubled down trying to catch up. So can you just speak to some of those competitive concerns? You mentioned win rates being up against peers. How are you thinking about the sustainability of your recent market share gains and maybe how long it takes to reach that goal of ultimately doubling your share in the core market?

Aman Narang: Yes. Thanks for the question, Will. First of all, I just want to congratulate the team. We had a fantastic Q3, really had a fantastic year so far. Team is performing well. If you look at our net adds, as I mentioned, they're up in Q3, they're tracking to be up every quarter this year. And it's really a direct result of the execution of the team. Our win rates, as I mentioned, are up year-over-year against all major competitors. And that's actually both in QSR and FSR. Our go-to-market team on the ground continues to execute at a high level. And one of the things they have is to maximize location growth. This is across our payments and our SaaS revenue. They've got the tools across upfront fees and hardware and services to make sure that they can go, take the location down and win because we've got this upsell engine to complement the new location team. And then lastly, of course, the most important thing underpinning this growth is our core platform, right? We were the first ones to build a restaurant-focused platform that was purpose-built for this industry, and we continue to innovate and drive customer-focused innovation for our customers. Toast IQ is a great example of that, helping restaurants run a better business. Our aspiration is really to build the best GPT interface for the restaurant industry. And I think in terms of the timing, you asked the question about timing, Will, I think if you look at our net adds this year in our core business, they're in about the same range as last year. So it just shows you the market share gains we're gaining every year as we continue to grow and scale.

Operator: Our next question comes from Josh Baer from Morgan Stanley.

Josh Baer: I think I already asked mine.

Operator: Your next question comes from Timothy Chiodo from UBS.

Timothy Chiodo: I want to shift gears a little bit to talk a little bit more about the opportunity that Toast has with consumers. So back when you had maybe 100,000 restaurants or so, maybe some of the stuff was less applicable because maybe the network wasn't quite as dense, but it's getting there and you're on your way to being north of 200,000. And I was wondering if you could just talk about what does that mean in terms of an opportunity? You've got some pieces, right, Toast Tables, Toast Takeout, the Uber partnership and much more, there could be gift cards. Just talk a little bit about what that dense network gives you as an advantage versus some of your competitors? And what kind of products could come out of that?

Aman Narang: Yes. That's a great question, Tim. If you look at our scale and the impact that's already having, you already see examples of that even beyond consumer, just to zoom out for a second. You've got millions of restaurant employees using Toast. And when you walk into Toast restaurants, a consistent theme that I hear is that they love Toast and they want to work at Toast run restaurants. Another example is we launched -- about a year ago, we launched a benchmarking product, which was to help restaurants with menus and pricing insights to run better businesses just off the menu data. So there are many examples where our scale and our network effects are playing a role. And in consumer, in fact, this morning, I woke up and the first thing I did was I went to a restaurant locally in Lexington, Massachusetts got a Revival Cafe. And one of my favorite things about the app is you can order ahead and just pick it up and leave. And similar to what Starbucks pioneered many years ago. And so we can do that across 100,000-plus Toast restaurants here in the U.S. People love that experience. In addition, I think where we have a unique opportunity is to bring diners into stores. So whether it's our partnership with Resy and Tock as part of the Amex partnership or with Toast Tables, the ability to get a table, sit down. And then one of the things that we're looking at is imagine the ability to just walk out and leave at the end of the transaction because you've got a card on file. And so there's a huge opportunity there in terms of providing a better guest experience, both in terms of bringing diners into the restaurant and then leaving the restaurant as well. And within the app, one feature that a lot of people have heard love is because we've got such great data about the restaurants and when they're busy and when they're not, the ability to generate intelligent offers during their slow periods and the ability to track all your loyalty in one place is another thing that we're getting some really good feedback on. So I agree with you, there's a lot of potential here given the density of restaurants that we now have. And I think really the focus is on figuring out how we can build the best in-store experience and digitize that experience for restaurants.

Operator: Your next question comes from Dan Dolev from Mizuho.

Dan Dolev: Obviously, great results here. I wanted to ask about just the consumer in general, like the macro, right? There's been a lot of like anxiety out there. And obviously, your results are looking great. So maybe you can talk to us what you're seeing kind of maybe in the quarter, but also more recently as we are in Q4, that would be fantastic.

Aman Narang: Yes. Thanks for the question. Look, the summer was strong. Q3 was strong year-over-year. What we saw in October on the consumer has normalized a little bit, but really within a narrow band and in line with kind of what our expectations were. And so our customers and our restaurants are performing well. One of the things we always look at is whether it's in boom markets or slower markets, we've done and studied previous recessions in '01 and '08. And what we've seen is that restaurants tend to be resilient. And what we're seeing so far in our data is our customers are holding up really well.

Operator: The next question comes from Dominic Ball from Rothschild & Co Redburn.

Dominic Ball: Aman, just to start with, I mean, fantastic to hear that you guys are saying that Toast can double its market share in its core talent. It's amazing. With digital chits within Toast IQ, it looks like one of the best products from our perspective that you launched over the last sort of 5 years. When we survey private full-service restaurant owners, the dream is really to understand their customer when they walk in. And because waiters and waitresses churn so much, it's really hard to do that, but this sort

of product seems to be offering that. So is there any case studies on any early data points and how this has gone so far?

Aman Narang: Yes. Thanks, Dominic. We're seeing -- just to zoom out for a second across Toast IQ, we're seeing lots and lots of use cases like that where customers are seeing the value of having all of their data actually drive value for them, right? So digital chits is a great example of that. In the past, if you're using a separate reservation system and a legacy point of sale, you're maybe printing that out on paper. But the ability to have that digitally on your handheld just makes that experience even more powerful because you can connect the guest experience to what's in the menu to drive upsell as well as to create a more personalized experience right at the table. So that's a great example of that. I think more broadly, within our Toast IQ platform, we're seeing really high adoption of our back end because customers love the fact that they can use more of a natural language interface. I think of a GPT-like interface where they can go in and say, get support, make changes to their back end, whether it's like 86 and adding, for example, or adding specials as well as just get insight about what's going on in their business in terms of profitability, in terms of what's selling well and how things are going. And so there's a lot of use cases within the Toast IQ umbrella. Digital chits is a good example of that, but really excited to see the progress and the adoption so far and what the product can do for our customers.

Operator: Our next question comes from David Hynes from Canaccord Genuity.

David Hynes: Congrats on nice quarter. Aman, I wanted to ask how you saw the business performed during the AWS outage. Anecdotally, I talked to restaurants up here in the Boston area. It sounded like everyone kind of cut over to offline mode. It worked well. They're able to collect payment information. I assume run those later. I think they did have to shut down online ordering, which I'm sure is factored into Elena's guidance for Q4, as small as it was being a Monday launch, it seems. What did you hear about competitive disruptions? Is this a differentiating point of toast? Like how did the business hold up during that period?

Aman Narang: Yes. DJ, the business held up fine because -- precisely because we've spent the past decade really building this platform for restaurants. And one of the key requirements is if something is down, whether the Internet or AWS or whatever it may be, you got to be able to operate within the restaurant. And so our customers were able to take orders, send their orders to kitchens, take payments offline. And as they came back -- as the system came back, they're able to process those off of offline mode. Certainly, we see that the need to leverage these digital channels, whether it's our first-party channels or our partner ecosystem, that has grown, right, over the years. And so we're looking at ways to continue to make that even more resilient. And -- but I think customers overall, we're able to work through it, and I don't think there's any meaningful impact in terms of guidance for Q4.

Operator: Our next question comes from Rayna Kumar from Oppenheimer.

Rayna Kumar: Great results. It was good to see the total take rate up 7 basis points from a year ago. I'm just wondering how sustainable an improving take rate is.

Elena Gomez: Yes. Thank you. Yes, I'm really proud also of the team here on their execution. Take rate was up -- the core net take rate was up 4 basis points and the total take rate up about 5 basis points. And that's really the benefits we're seeing from the small targeted pricing moves. It's COGS optimization, which is a priority for that team. It's also new products like surcharging, which is small today and contributing a little bit, but over time, that can drive -- that can be more meaningful as we get more customers on that product. But when you zoom out, we have a lot of confidence in our ability to drive take rate up over time, really using those same levers, driving cost optimization on a per transaction basis, driving more digital innovation and continuing to scale just with our volume. So really view that as an opportunity.

Operator: The next question comes from Jason Kupferberg from Wells Fargo.

Jason Kupferberg: I wanted to ask about recurring gross profit. I mean you delivered, I think, about 1,000 basis points of upside on that metric in the quarter. It's a lot even by Toast standards. And I think this was against the lapping effect of last year's accounting change. And so I'm curious, as you kind of rank order, what kind of surprised you to the upside, GPV, Toast Capital, other factors? And then just looking at typical Q4 seasonality on the recurring gross profit, I think it tends to be up kind of modestly quarter-over-quarter versus Q3. But if we look at the top end of the Q4 guidance, I think you'd be down a little bit. So I'm just curious if there's any call-outs there. I mean, obviously, you've had a track record

of being able to handily outperform, but I wanted to see if there's anything else we might be missing on that front.

Elena Gomez: Thanks, Jason. You actually summarized it quite well. So our guidance for Q4 is 25% growth at the high end, and we're always going to aim to do better. We do take a balanced view of GPV just given the macro dynamic. But as you said, we saw strong GPV trends in the summer. We also had a strong quarter from Toast Capital, and we're seeing that more normalize in Q4. So overall, we're really confident with the guidance that we've given.

Operator: Our next question comes from Stephen Sheldon from William Blair.

Stephen Sheldon: Great results. I wanted to follow up on a prior question on Toast IQ. Great to hear that I think it was over 25,000 locations have used it, which is a lot more than I would have expected this early. So just wanted an update there of how we should think about the financial impact of that, including higher AI costs associated with hosting. With that kind of adoption, I think in a month, I'd assume that you're not selling it as a separate SKU. So am I right on that assumption? Do you plan to eventually sell it as a separate SKU? Or could that be used as part of the basis for SaaS pricing increases or better product attach rates as we think about the next year or 2?

Aman Narang: Yes. Great question, Stephen. I mean right now, the focus on Toast IQ is really on adoption and really driving customer value. As I mentioned, really excited about the early adoption from customers and the value they're getting. If you look at like what opportunities this creates for Toast, one, I think because people are using it so much to run their businesses, there's product-led growth opportunities to expand our platform. Another area that we're starting to invest in is if you look at like our marketing platform, for example, we started off with e-mail text and ads, but now we've got AI-driven automation to create personalized marketing campaigns because, as you can imagine, restauranters, especially SMB restaurant tours are busy and they're not marketers and have the time to generate these campaigns. And so you can imagine Agentic capabilities within Toast IQ to start to recommend these campaigns when they're slower or at different times. And so whether it's on marketing or it's on back-office functions like accounting or bookkeeping or even payroll, we see lots of opportunities to drive key Agentic use cases within Toast IQ to drive adoption and value. I think in terms of monetization, it's early. We're looking at different ways. I think one obvious way that we're going to look at is just like GPT, look at usage-based monetization on Toast IQ. But the most important focus here right now is to make sure we're getting adoption and really great value for customers to help drive our growth.

Operator: Our next question comes from Samad Samana from Jefferies.

Samad Samana: It's great to see the strong results. I guess I'm pretty focused here on pricing. It's going to be a little multiparter, which first is the pricing on the website, fully realizing the disclosure the company made. But was there some intention that somebody was exploring maybe testing and targeting or AV testing? Just maybe help us understand what happened there. And then just the comments on the targeted fintech pricing moves that you've made. Like how much of the back book have you now maybe pushed price through? I know that these are focusing on 2 different pieces, but pricing, I think, is a really big focus right now for everybody. So I appreciate you listening the questions.

Elena Gomez: Yes. Thanks, Samad, for the question. So I'll start with the website, which was human error. And as soon as we discovered it, we fixed it. You're right, we do tests from time to time. This certainly was not a test. And actually, that part of the website gets 1% of our bookings, so not material overall. So we corrected that and moved on. In terms of pricing, our philosophy is unchanged. It's really -- the way we think about it, it's really just one lever of growth, and we'll still make targeted and surgical price changes. And we'll balance that with market share potential, of course. And in the near term, gaining share is a high priority, and we know we can optimize price over time. In terms of how much of the back book, we haven't really disclosed that, but we feel confident as long as we're driving value, we'll be able to drive price over time in small targeted ways. And as we bring customers on to our platform, they're coming in at the market rates.

Operator: We will now take our last question from the line of Darrin Peller from Wolfe Research.

Darrin Peller: Just maybe help us understand what gives you the confidence in your ability to see increased net adds in '26. Just how much might come from the TAM expansion areas driving the growth versus the core business versus the core business you've been adding so well so far?

Aman Narang: Yes. Sure, Darrin. If you look at the trend we've seen in the past year, our core net adds are in the same range as last year. And so if you look at how we've been able to drive record net adds every quarter this year, it's really from these new TAMs contributing more. And we expect really the same trend to continue next year. We expect the core to continue to perform at a high level based upon the signal we're seeing and then these new TAMs to play a bigger role. If you look at like the longer-term opportunity, if you just zoom out for a second and see what's possible in these TAMs, I think what's exciting to me is there's so much overlap in the core platform between our core U.S. SMB business and these new TAMs, which is why we've been able to grow this business to close to \$100 million in ARR just in a couple of years. And that's what's really going to drive the incremental net adds in our business next year.

Operator: This concludes today's conference call. Thank you all for joining.