

Toast

Moving parts net out modestly positive

Reiterate Rating: NEUTRAL | PO: 21.00 USD | Price: 19.20 USD

Strong 4Q but '24 guidance somewhat mixed

TOST's 4Q featured a clean top/bottom-line beat. '24 guidance was somewhat mixed: GP was below Street but we think roughly in-line w/ buyside, and was likely better than expected after shares sold off late in today's trading on news of a 10% headcount reduction. We think SaaS ARPU growth guide of MSD was in-line to slightly light. In our view, 1Q location adds guide of 5,500 (~15% q/q) is somewhat disappointing and will require re-acceleration in y/y growth to achieve guide for '24 adds to exceed '23. Reiterate Neutral on SaaS ARPU pressure, increasing competition, valuation.

More on '24 guide; expect GAAP operating profit in 1H25

In lieu of revenues, TOST is now guiding to a non-GAAP recurring gross profit (subscription + fintech GP) metric of \$1,300M-\$1,320M (23-25% y/y growth) vs. BofAe/Street at \$1,323M/\$1,337M (~27%/28% growth). FY24 adjusted EBITDA is expected to be \$200M-\$220M vs. BofAe/Street at \$148M/\$170M. TOST's 1Q recurring GP guide of \$275M-\$285M (20-24% y/y growth) is also below BofAe/Street at \$282M/\$290M at the mid-point, reflecting weather headwinds in January. 1Q adjusted EBITDA is expected to be \$15M-\$25M, in-line with BofAe/consensus at \$19M/\$23M. It was encouraging to hear that TOST expects positive GAAP operating profit in 1H25.

Progress moving upmarket and int'l; new buyback plan

New enterprise wins include Caribou Coffee (500 locations) and Choice Hotels International (announced last week), where Toast will be a brand standard for Cambria Hotels and Radisson and a qualified vendor for other Choice brands. TOST also disclosed that ~1,000 locations (~1% of total) are now from Canada, UK, and Ireland. The company announced its first-ever share buyback program (\$250M, no details on timing). An Analyst Day is planned in 2Q.

Update PO to \$21 + more on 4Q

We are moving our multiple out to 6x '25E recurring GP (subscription + fintech) of \$1.6B (vs. 7x '24E prior) and updated DCF (~13% WACC, 15% prior), for \$21 PO (vs. \$18 prior). 4Q revenues of \$1,036M beat BofAe/Street/guide at \$1,018M/\$1,017M/ \$1,000M-\$1,030M. 4Q GPV of \$33.7B was above BofAe/Street at \$33.4B/\$33.1B. 4Q Adjusted EBITDA of \$29M was also higher vs. BofAe/Street/guide at \$12M/\$15M/\$5M-\$15M. 4Q net location adds of 6,500 was in line with guide. ARR, a core operational metric, was up 35% in 4Q (decelerating vs. 40% in 3Q). 43% of locations took up 6+ modules, flat vs. past 2 quarters. Net take rate of 52bps was 1bp below BofAe/Street.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(0.53)	(0.46)	(0.19)	0.10	0.28
EPS Change (YoY)	68.5%	13.2%	58.7%	NM	180.0%
Consensus EPS (Bloomberg)			0.04	0.28	0.36
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	NM	NM	NM	192.0x	68.6x
EV / EBITDA*	NM	155.3x	45.9x	26.4x	17.5x
Free Cash Flow Yield*	-1.7%	1.3%	0.9%	3.0%	4.0%

* For full definitions of *IQmethod*SM measures, see page 5.

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Timestamp: 15 February 2024 08:36PM EST

15 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	18.00	21.00
2024E Rev (m)	4,832.6	4,886.7
2025E Rev (m)	5,979.3	6,045.8
2026E Rev (m)	7,326.5	7,407.7
2024E EPS	-0.17	-0.19
2025E EPS	-0.13	0.10
2026E EPS	0.23	0.28

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Stock Data

Price	19.20 USD
Price Objective	21.00 USD
Date Established	15-Feb-2024
Investment Opinion	C-2-9
52-Week Range	13.77 USD -27.00 USD
Mrkt Val / Shares Out (mn)	10,226 USD / 532.6
Free Float	92.4%
Average Daily Value	169.65 USD
BofA Ticker / Exchange	TOST / NYS
Bloomberg / Reuters	TOST US / TOST.N
ROE (2024E)	-8.2%
ESGMeter TM	NLA

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

iQprofileSM Toast

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-6.9%	6.6%	17.0%	17.3%	21.1%
Return on Equity	-25.0%	-21.4%	-8.2%	3.8%	8.1%
Operating Margin	-4.2%	1.5%	4.4%	6.5%	8.6%
Free Cash Flow	(172)	130	95	306	413

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	6.0x	2.8x
Asset Replacement Ratio	0.7x	0.1x	0.4x	0.5x	NA
Tax Rate	0.7%	NM	NM	35.0%	35.0%
Net Debt-to-Equity Ratio	-46.2%	-50.7%	-54.1%	-60.4%	-63.8%
Interest Cover	NA	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	2,731	3,865	4,887	6,046	7,408
% Change	60.1%	41.5%	26.4%	23.7%	22.5%
Gross Profit	562	903	1,201	1,518	1,886
% Change	64.8%	60.7%	33.0%	26.4%	24.2%
EBITDA	(115)	62	210	365	551
% Change	-176.6%	NM	237.9%	74.2%	51.0%
Net Interest & Other Income	13	43	40	28	28
Net Income (Adjusted)	(274)	(246)	(101)	56	158
% Change	43.7%	10.2%	58.7%	NM	184.5%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(274)	(246)	(101)	53	159
Depreciation & Amortization	24	32	47	58	0
Change in Working Capital	(129)	(59)	(64)	(97)	(117)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	223	407	234	320	400
Capital Expenditure	(16)	(4)	(20)	(28)	(28)
Free Cash Flow	-172	130	95	306	413
% Change	NM	NM	-26.5%	220.4%	35.1%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	547	605	700	1,006	1,420
Trade Receivables	77	69	87	106	129
Other Current Assets	783	896	950	1,036	1,141
Property, Plant & Equipment	138	111	52	21	49
Other Non-Current Assets	216	277	277	277	277
Total Assets	1,761	1,958	2,067	2,448	3,017
Short-Term Debt	39	0	0	0	0
Other Current Liabilities	457	663	671	679	689
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	167	101	101	101	101
Total Liabilities	663	764	772	780	790
Total Equity	1,100	1,194	1,295	1,667	2,226
Total Equity & Liabilities	1,763	1,958	2,067	2,448	3,017

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Other Financials

Company Description

Toast Inc. is a provider of a cloud-based, all-in-one digital technology platform for restaurants. Toast's platform provides a comprehensive suite of software-as-a-service products, financial technology solutions including integrated payment processing, restaurant-grade hardware, and a broad ecosystem of third-party partners. Toast also offers short-term, working capital loans to its customers through Toast Capital.

Investment Rationale

While Toast's relatively low TAM penetration should provide a long runway for growth, Toast faces intense competition in the restaurant POS and technology space. Given its slowing top-line metrics, we believe that upside is limited in the near term.

Stock Data

Average Daily Volume 8,835,825

Quarterly Earnings Estimates

	2023	2024
Q1	-0.15A	-0.16E
Q2	-0.19A	-0.04E
Q3	-0.06A	0E
Q4	-0.07A	0E

More details on 4Q + F24/1Q guidance

- 4Q revenues were \$1,036M vs. BofAe/Street at \$1,018M/\$1,017M and guidance of \$1,000M-\$1,030M.
- 4Q GPV of \$33.7B was above BofAe/Street at \$33.4B/\$33.1B.
- 4Q Adjusted EBITDA of \$29M was higher vs. BofAe/Street at \$12M/\$15M and guidance of \$5M-\$15M.
- 4Q net location adds of 6,500 was in line with guide.
- ARR, a core operational metric, was \$1,218M in 4Q, up 35% y/y.
- 43% of locations took up six-plus modules, stable q/q.
- 4Q net take rate of 52 bps was 1bp below BofAe/Street.

2024 guidance

- In lieu of revenues, TOST is now guiding to a non-GAAP recurring gross profit (software+fintech GP) metric of \$1,300M-\$1,320M (23-25% y/y growth) vs. BofAe/Street at \$1,323M/\$1,337M (~27%/28% growth).
- FY24 adjusted EBITDA is expected to be \$200M-\$220M vs. BofAe/Street at \$148M/\$170M.
- Net location adds expected to peak in 2Q; '24 adds expected to be greater than '23.

1Q24 guidance

- TOST's 1Q recurring GP guide of \$275M-\$285M (20-24% y/y growth) is also below BofAe/Street at \$282M/\$290M at the mid-point, reflecting weather headwinds in January.
- 1Q adjusted EBITDA is expected to be \$15M-\$25M, in-line with BofAe/consensus at \$19M/\$23M.



Price objective basis & risk

Toast (TOST)

Our price objective of \$21 is based on a 50/50 blend of 6x C25E recurring gross profit and our DCF (13% WACC, 4% terminal growth). Our target multiple represents a 20% premium to Toast's comp group, given its best-in-class hardware/software platform and differentiated distribution strategy.

Upside risks to our price objective are better-than-expected overall macro conditions for small / medium sized businesses and faster-than-expected expansion into international markets / path to profitability.

Downside risks to our price objective includes deteriorating macro conditions (e.g. restaurants pulling back on IT spending or consumers spending less money at restaurants) and intense competition.

Analyst Certification

I, Jason Kupferberg, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Accenture Plc	ACN	ACN US	Jason Kupferberg
	American Express Company	AXP	AXP US	Mihir Bhatia
	Block Inc	SQ	SQ US	Jason Kupferberg
	Capital One Financial	COF	COF US	Mihir Bhatia
	Discover Financial	DFS	DFS US	Mihir Bhatia
	Enact Holdings	ACT	ACT US	Mihir Bhatia
	Essent Group	ESNT	ESNT US	Mihir Bhatia
	Fidelity National Information Services	FIS	FIS US	Jason Kupferberg
	Fiserv Inc	FI	FI US	Jason Kupferberg
	FleetCor Technologies Inc.	FLT	FLT US	Mihir Bhatia
	Flywire	FLYW	FLYW US	Jason Kupferberg
	Global Payments Inc	GPN	GPN US	Jason Kupferberg
	Jack Henry & Associates	JKHY	JKHY US	Jason Kupferberg
	Marqeta	MQ	MQ US	Cassie Chan
	Mastercard Inc	MA	MA US	Jason Kupferberg
	MGIC Investment Corp.	MTG	MTG US	Mihir Bhatia
	NMI Holdings	NMIH	NMIH US	Mihir Bhatia
	Nuvei	NVEI	NVEI US	Jason Kupferberg
	Nuvei	YNVEI	NVEI CN	Jason Kupferberg
	OneMain Holdings, Inc.	OMF	OMF US	Mihir Bhatia
	Shift4 Payments, Inc	FOUR	FOUR US	Jason Kupferberg
	Telus International	TIXT	TIXT US	Cassie Chan
	Telus International	YTIXT	TIXT CN	Cassie Chan
	Visa Inc.	V	V US	Jason Kupferberg
	WEX Inc.	WEX	WEX US	Mihir Bhatia
NEUTRAL				
	ADP	ADP	ADP US	Jason Kupferberg
	Affirm Holdings	AFRM	AFRM US	Jason Kupferberg
	Bread Financial Holdings Inc	BFH	BFH US	Mihir Bhatia
	DLocal	DLO	DLO US	Jason Kupferberg
	Globant SA	GLOB	GLOB US	Jason Kupferberg
	PayPal Holdings Inc	PYPL	PYPL US	Jason Kupferberg
	SoFi Technologies Inc	SOFI	SOFI US	Mihir Bhatia
	Synchrony Financial	SYF	SYF US	Mihir Bhatia
	Thoughtworks	TWKS	TWKS US	Jason Kupferberg

US - Payments, Processors, Specialty Finance and IT services Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Toast	TOST	TOST US	Jason Kupferberg
	TTEC Holdings	TTEC	TTEC US	Cassie Chan
UNDERPERFORM				
	CGI Inc.	GIB	GIB US	Jason Kupferberg
	CGI Inc.	YGIBA	GIB/A CN	Jason Kupferberg
	Cognizant Technology Solutions	CTSH	CTSH US	Jason Kupferberg
	Coinbase	COIN	COIN US	Jason Kupferberg
	DXC Technology	DXC	DXC US	Jason Kupferberg
	EPAM Systems	EPAM	EPAM US	Jason Kupferberg
	Paychex	PAYX	PAYX US	Jason Kupferberg
	Radian Group Inc	RDN	RDN US	Mihir Bhatia
	Rocket Companies, Inc.	RKT	RKT US	Mihir Bhatia
	TaskUs	TASK	TASK US	Cassie Chan
	Western Union	WU	WU US	Jason Kupferberg

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt + Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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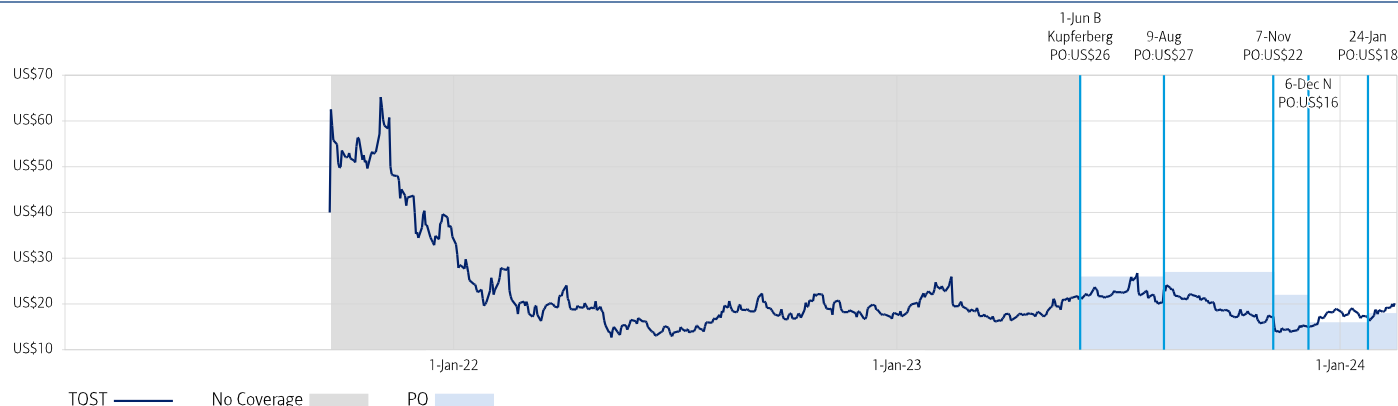
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Important Disclosures

Toast (TOST) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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