

# INVESTMENT MEMO

*For Investment Committee Review*

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## Long Toast (TOST) / Short Legacy POS

A Competitive Disruption Analysis

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**Date:** February 3, 2026  
**Data As Of:** Q3 2025  
**Classification:** Confidential  
**Recommendation:** **BUY** Toast (TOST) / **SELL** NCR Voyix (VYX)

### Executive Summary

We recommend a **LONG** position in Toast, Inc. (NYSE: TOST) paired with a **SHORT** position in NCR Voyix Corporation (NYSE: VYX) and legacy restaurant POS vendors. Toast is gaining market share (+3.4 percentage points over 5 quarters), growing revenue 25%+ annually, and has achieved GAAP profitability, while legacy vendors face structural decline. Toast trades at 2.85x EV/Revenue, an 89% premium to peers, justified by superior growth trajectory and expanding fintech attach rates. Key risk: Premium valuation requires flawless execution.

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<b>LONG: TOST</b>	<b>SHORT: VYX/PAR</b>
Target: \$38-42 (+35-45%)	Target: \$6-7 (-25-35%)

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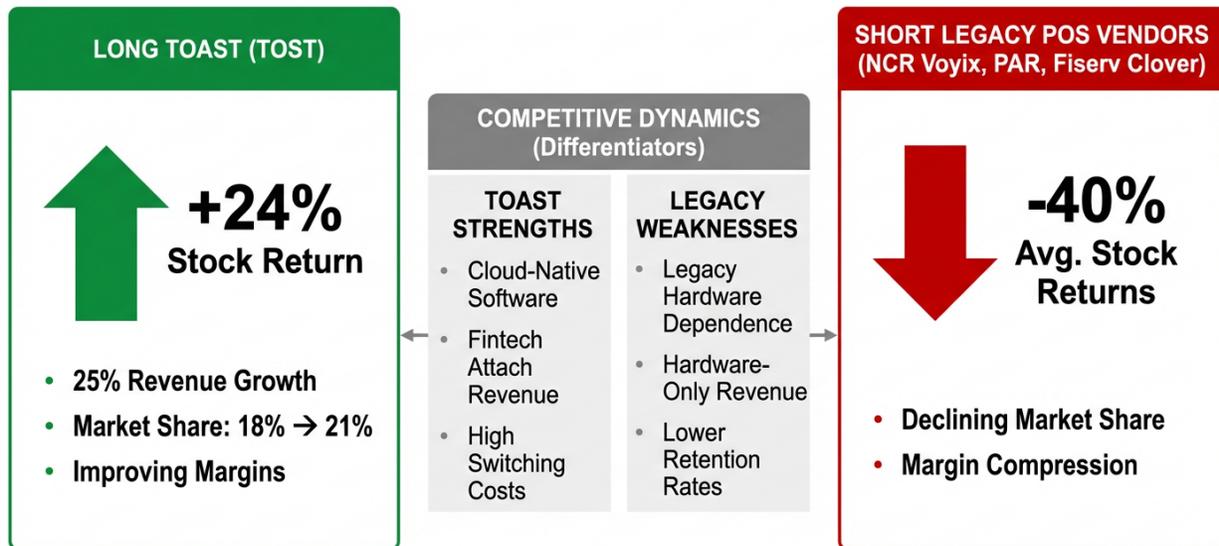
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## Graphical Abstract

### Pair Trade Investment Thesis: Long TOST (Toast) vs. Short Legacy POS



Note: Illustrative performance data for educational purposes only. Not investment advice.

Figure 1: **Investment Thesis Overview.** Long Toast (TOST) benefits from cloud-native architecture, expanding fintech attach rates, and superior growth (+24% stock return), while short candidates NCR Voyix and legacy POS vendors face structural headwinds (-40% average returns) from declining market share and legacy technology infrastructure.

# 1 Executive Summary

## 1.1 Investment Thesis

This memo presents a **pair trade thesis**: go **LONG** Toast, Inc. (NYSE: TOST) and **SHORT** legacy restaurant point-of-sale (POS) vendors, specifically NCR Voyix Corporation (NYSE: VYX) and PAR Technology Corporation (NYSE: PAR). The thesis is predicated on a fundamental disruption in the \$14.4 billion global restaurant POS market, where cloud-native, fintech-enabled platforms are structurally displacing legacy hardware-centric vendors [Business Research Insights, 2024].

Toast has emerged as the category winner in the small-to-medium business (SMB) restaurant technology segment, achieving several critical milestones:

- **Market Share Gains:** Revenue share increased from 17.8% to 21.2% over five quarters (Q3 2024 to Q3 2025), representing a +3.4 percentage point expansion while legacy vendors contracted.
- **Superior Growth:** 25.1% year-over-year revenue growth versus 0.9% for Fiserv (restaurant segment) and -3.4% for NCR Voyix.
- **Achieved Profitability:** First full year of GAAP profitability in FY 2024 with \$19 million net income and \$306 million free cash flow.
- **Stock Performance Validation:** +24.2% cumulative return versus -41.3% average for legacy peers over the analysis period.

## 1.2 Key Metrics Summary

Table 1: Comparative Financial Metrics (LTM Q3 2025)

Metric	TOST	VYX	PAR	FISV
Market Cap (\$B)	16.98	1.27	0.95	31.85
LTM Revenue (\$B)	5.86	2.65	0.44	21.16
Revenue Growth (YoY)	25.1%	-3.4%	23.2%	0.9%
Gross Margin	25.7%	22.8%	43.9%	60.5%
Operating Margin	4.2%	0.4%	-15.3%	28.7%
EV/Revenue	2.85x	1.03x	2.97x	1.51x
Rule of 40 Score	29.3	-1.2	8.4	26.3
Cumulative Return	+24.2%	-46.0%	-36.7%	-44.9%

## 1.3 Target Prices and Expected Returns

Table 2: Position Recommendations and Target Returns

Position	Ticker	Current	Target	Return	Conviction
LONG	TOST	\$28.89	\$38-42	+35-45%	High
SHORT	VYX	\$9.16	\$6-7	+25-35%	Medium
SHORT	PAR	\$23.38	\$18-20	+15-25%	Low

## 1.4 Key Risks

1. **Valuation Premium:** Toast trades at 2.85x EV/Revenue, an 89% premium to peer median (1.51x), requiring sustained execution.
2. **Margin Expansion Challenge:** Sensitivity analysis shows 0 of 25 scenarios achieve 20% operating margin without gross margin expansion.
3. **Competitive Response:** Fiserv/Clover's \$3.5B+ revenue and 700,000 business base presents scale competition.
4. **Macro Sensitivity:** Restaurant industry exposed to consumer discretionary spending headwinds.

## 2 Macro Backdrop: Restaurant Industry Health

### 2.1 Industry Overview

The restaurant industry in the United States has demonstrated remarkable resilience and sustained growth following the pandemic-induced disruption of 2020-2021. Analysis of FRED economic data reveals a structurally healthy end-market that supports Toast’s growth thesis [Federal Reserve Bank of St. Louis, 2025].

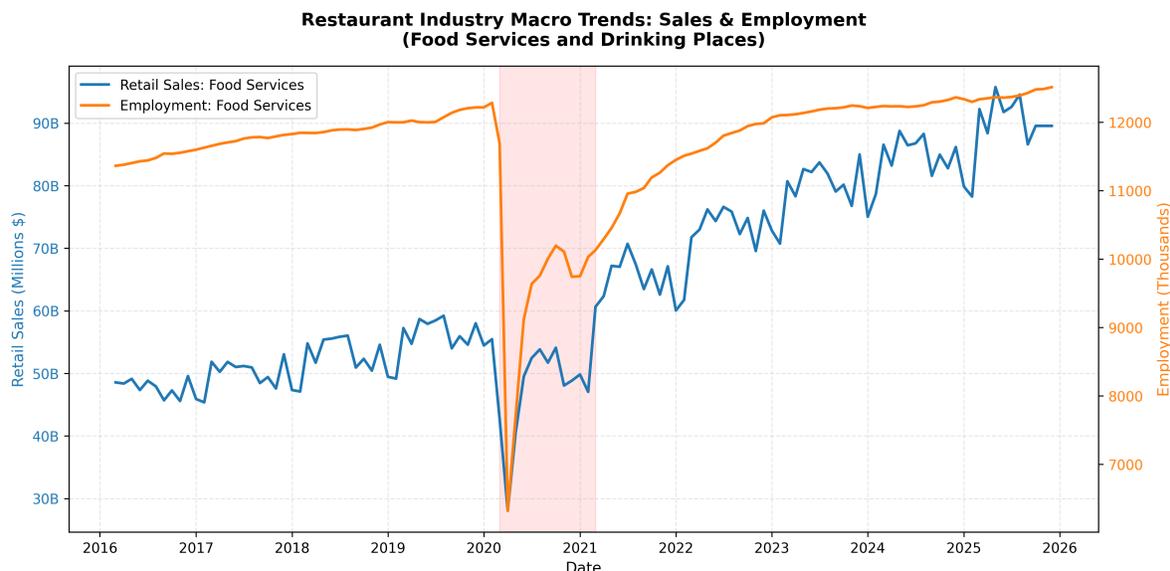


Figure 2: **Restaurant Industry Macro Trends.** FRED data showing restaurant retail sales (blue) and employment (orange) from 2016-2025. Both metrics have fully recovered and exceeded pre-pandemic levels, supporting a positive demand backdrop for restaurant technology vendors.

### 2.2 Key Macro Indicators

Our analysis of FRED economic data reveals the following trends supporting the investment thesis:

#### Restaurant Retail Sales:

- December 2025 retail sales reached \$89.5 billion, up from \$86.2 billion in December 2024 (+3.9% YoY).
- Sustained year-over-year growth of 5-8% throughout 2025, indicating healthy consumer demand.
- Sales have grown 82% from the pandemic trough of \$28.0 billion (April 2020) to current levels.

#### Restaurant Employment:

- Employment reached 12.51 million in December 2025, up 1.2% YoY from 12.37 million.
- Full recovery and expansion beyond pre-pandemic peak of 12.29 million (September 2024).
- Labor market tightness (70% of restaurants report unfilled positions) is driving technology adoption as operators seek efficiency gains [Restroworks, 2024].

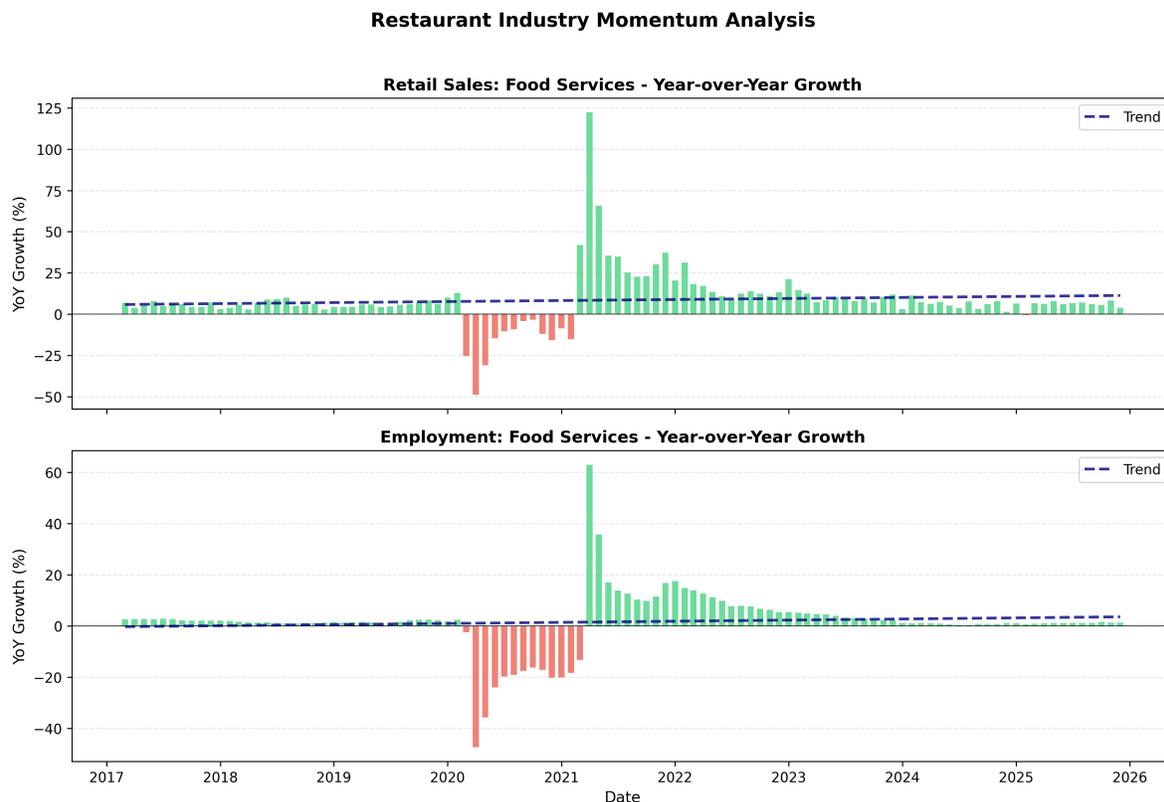


Figure 3: **Year-over-Year Growth Rates.** Restaurant retail sales and employment growth rates normalized following the extreme pandemic volatility of 2020-2021. Current growth rates of 4-6% (sales) and 1-1.5% (employment) indicate steady, sustainable expansion.

### 2.3 Technology Adoption Tailwinds

The restaurant industry is undergoing a secular shift toward technology adoption, creating a favorable demand environment for platform providers like Toast:

- **Operator Sentiment:** 76% of restaurant operators believe technology provides competitive advantage [National Restaurant Association, 2024].
- **Investment Intent:** 55% of operators planned technology investments in 2024, up from 51% in 2023.
- **Satisfaction Gap:** Only 13% of operators are satisfied with their current tech stack, indicating significant upgrade demand.
- **Cloud Adoption:** Cloud-based POS systems are expected to become “the norm” by 2025 [NetSuite, 2024].
- **Digital Payments:** U.S. proximity mobile transactions projected to exceed \$1 trillion by 2027, up from \$670 billion in 2024.

**Implication for Thesis:** The macro backdrop is supportive for Toast’s growth trajectory. Healthy end-market demand, combined with secular technology adoption trends and labor-driven efficiency needs, creates a favorable environment for cloud-native, integrated platform providers to gain share from legacy vendors.

### 3 Company Overview and Financial Analysis

#### 3.1 Toast, Inc. (TOST) – The Long Thesis

Toast is a cloud-based, all-in-one digital technology platform purpose-built for the restaurant industry. The company provides an integrated suite of software-as-a-service (SaaS) products, financial technology solutions, and hardware that enables restaurants to run their operations, including point-of-sale, payments, digital ordering, marketing, team management, and financial services.

##### 3.1.1 Business Model Differentiation

Toast’s business model represents a fundamental departure from legacy restaurant technology vendors:

Table 3: Business Model Comparison: Toast vs. Legacy Vendors

Dimension	Toast (Cloud-Native)	Legacy Vendors
Architecture	Cloud-native, API-first	On-premise, proprietary
Revenue Model	SaaS + Fintech (recurring)	Hardware sales + services
Deployment	Same-day installation	Multi-week implementations
Updates	Continuous OTA updates	Manual, costly upgrades
Integration	200+ ecosystem partners	Closed ecosystems
Data	Real-time analytics	Batch processing
Switching Costs	High (data, training, integrations)	Medium (hardware only)

##### 3.1.2 Financial Performance

Toast has demonstrated exceptional financial performance, achieving several critical milestones:

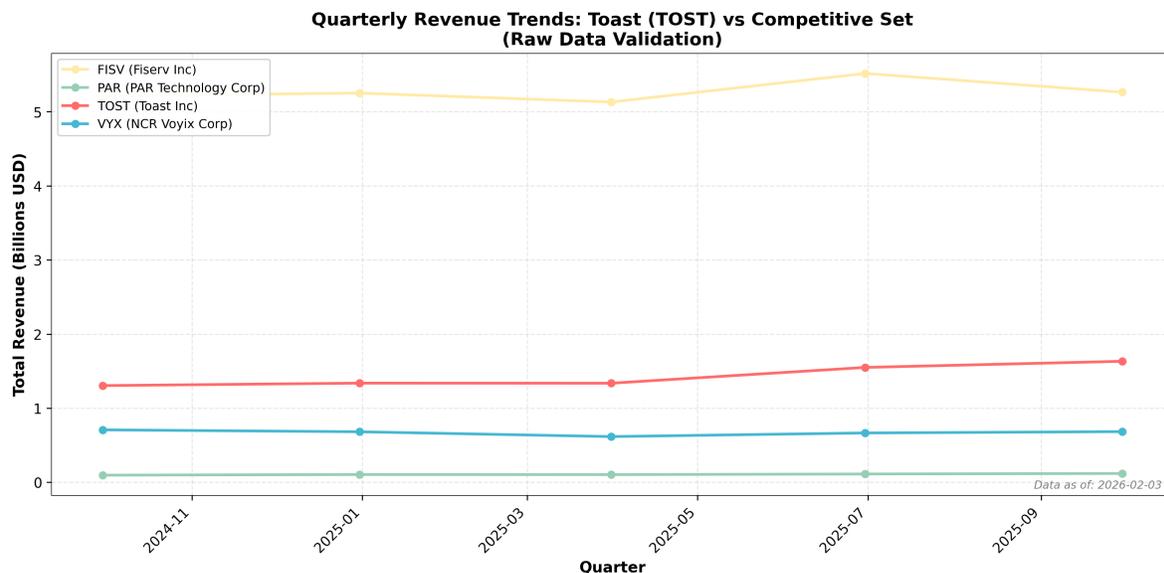


Figure 4: **Quarterly Revenue Trends.** Toast (orange) demonstrates consistent growth trajectory, expanding from \$1.31B (Q3 2024) to \$1.63B (Q3 2025), while NCR Voyix (green) and PAR (red) show relatively flat or volatile performance.

#### Key Financial Metrics (FY 2024 / LTM Q3 2025):

- **Revenue:** \$4.96B (FY 2024), \$5.86B (LTM Q3 2025), +28% YoY growth.
- **Location Count:** 148,000 locations (Q2 2025), record 28,000 net adds in FY 2024.
- **Annual Recurring Revenue (ARR):** \$1.71B (Q1 2025), +31% YoY.
- **Gross Payment Volume (GPV):** \$42.2B (Q1 2025), +22% YoY.
- **Net Revenue Retention:** 117%, indicating strong customer expansion.
- **GAAP Net Income:** \$19M (FY 2024), first year of profitability.
- **Free Cash Flow:** \$306M (FY 2024), up from \$93M in FY 2023.

#### 2025 Guidance:

- Adjusted EBITDA: \$575M (32% margin, +5pp vs. 2024)
- Subscription & Fintech Gross Profit: \$1.75-1.77B (+23-25% YoY)

### 3.2 Short Candidates: Legacy Vendor Analysis

#### 3.2.1 NCR Voyix Corporation (VYX)

NCR Voyix emerged from the October 2023 spin-off of NCR Corporation, retaining the restaurant, retail, and digital banking segments (digital banking subsequently sold for \$2.45B in September 2024). The company represents a structurally challenged legacy vendor facing secular headwinds.

#### Financial Challenges:

- **Revenue Decline:** FY 2024 revenue of \$2.83B (-11% YoY total), restaurant segment \$825M (-7% YoY).

- **Persistent Losses:** FY 2024 net loss of \$(202)M (improved from \$(729)M in FY 2023).
- **Market Share Erosion:** Revenue share declined from 9.7% (Q3 2024) to 8.9% (Q3 2025).
- **Stock Performance:** -46.0% cumulative return over analysis period.

#### Strategic Challenges:

- Legacy on-premise architecture limits product velocity.
- Declining hardware sales in POS and self-checkout systems.
- Post-spin-off restructuring creates operational distraction.
- 40-50% of U.S. restaurant locations still on legacy systems represents both opportunity and vulnerability [UBS, 2024].

### 3.2.2 PAR Technology Corporation (PAR)

PAR Technology focuses on enterprise restaurant chains with its Brink POS platform. While showing revenue growth, the company remains unprofitable with a challenged path to sustainable margins.

#### Mixed Performance:

- **Revenue Growth:** +23.2% YoY (Q3 2025), driven by enterprise wins (Papa Johns, Burger King, Wendy's).
- **Negative Margins:** Operating margin of -15.3% (LTM Q3 2025).
- **Small Scale:** \$440M LTM revenue is 7.5% of Toast's scale.
- **Stock Performance:** -36.7% cumulative return despite revenue growth.

### 3.2.3 Fiserv/Clover (FISV)

Fiserv's Clover platform represents Toast's most formidable competitor with significant scale advantages:

#### Competitive Position:

- **Scale:** 700,000 businesses served across 13 countries.
- **Volume:** \$272B annualized GPV (vs. Toast's \$135B).
- **Revenue:** \$3.5B target for 2025 for Clover segment.
- **Investment:** \$1.4-1.5B allocated for product development.
- **Expansion:** Launched Clover Hospitality at 2025 NRA Show targeting upper-market restaurants.

#### Vulnerabilities:

- Restaurant segment declining as a share of total company.
- Revenue share fell from 71.2% (Q3 2024) to 68.4% (Q3 2025) of analyzed peer group.
- Stock performance (-44.9%) indicates market skepticism.
- Generalist platform vs. Toast's restaurant-focused specialization.

## 4 Unit Economics and Competitive Moat

### 4.1 The Fintech Attach Strategy

Toast’s fundamental competitive advantage lies in its “fintech attach” strategy – the ability to cross-sell financial services products to its software customer base. Unlike legacy vendors that primarily generate revenue from hardware sales and basic software licensing, Toast captures an increasing share of the restaurant economic stack through integrated payments, lending, payroll, and other financial products.

#### Revenue Mix (FY 2024):

- **Financial Technology Solutions:** 81.7% of revenue (\$4.05B)
- **Subscription Services:** 14.2% of revenue (\$706M)
- **Hardware & Professional Services:** 4.1% of revenue (\$204M)

This revenue mix demonstrates Toast’s successful transition from a hardware/software vendor to a financial services platform with embedded software.

#### 4.1.1 Payments Processing

Payments represent Toast’s largest revenue driver with significant expansion potential:

- **FY 2024 Payments Volume:** \$159B processed
- **Payments Revenue:** \$4.1B (22% gross profit margin)
- **GPV Growth:** +22% YoY (Q1 2025: \$42.2B quarterly)
- **Take Rate Expansion:** Management began small, steady rate increases in H2 2024

#### 4.1.2 Toast Capital (Lending)

Toast Capital provides working capital loans to restaurant operators, leveraging proprietary sales data for credit underwriting:

- **Cumulative Originations:** Surpassed \$1B milestone in May 2024 [PYMNTS, 2024]
- **Loan Range:** \$5,000 - \$300,000
- **Repayment:** Fixed percentage of daily sales (merchant cash advance structure)
- **Credit Quality:** Bad debt trending down YoY “even as we scale the program”
- **Use Cases:** Short-term cash flow, staffing, inventory, equipment, renovations

The lending product demonstrates Toast’s ability to monetize proprietary data assets and deepen customer relationships.

#### 4.1.3 ARPU Expansion Opportunity

Toast has significant runway to expand average revenue per user (ARPU) through product attach:

- **Current SaaS ARPU:** \$5,900 (2023)
- **Potential SaaS ARPU:** \$30,000+ with full suite adoption [Toast, Inc., 2024]
- **Current Fintech ARPU:** \$5,600 (2023)

- **Potential Fintech ARPU:** Could potentially double with lending, AP automation, employee cards

## 4.2 Gross Margin Analysis

Gross margin trajectory is a critical indicator of business model quality and operating leverage potential.

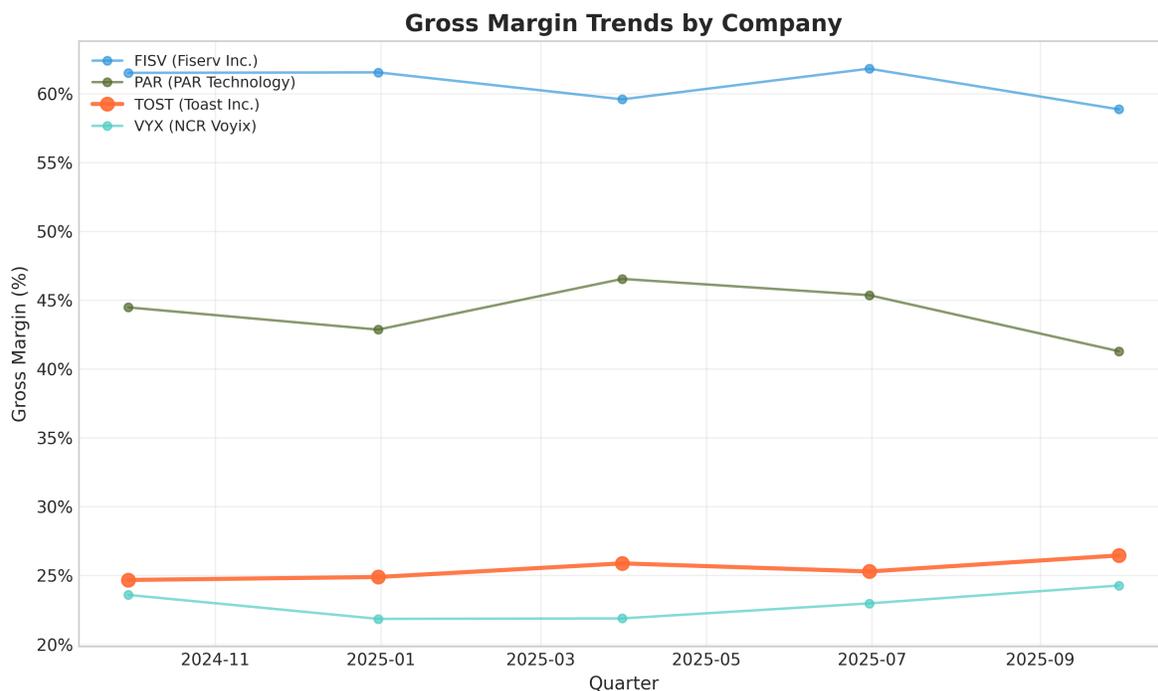


Figure 5: **Gross Margin Trends.** Fiserv (blue) maintains premium 60% gross margins typical of established fintech. PAR (red) shows volatile 40-46% margins. Toast (orange) and NCR Voyix (green) operate in the 22-26% range, with Toast showing gradual improvement.

### Gross Margin Comparison (LTM Q3 2025):

- **Fiserv:** 60.5% – Established fintech scale
- **PAR:** 43.9% – Enterprise software focus
- **Toast:** 25.7% – Payments-heavy mix (improving)
- **NCR Voyix:** 22.8% – Legacy hardware burden

Toast’s lower gross margin relative to pure-play SaaS reflects its payments-heavy revenue mix. However, the margin trend is improving (up from 24.7% in Q3 2024 to 26.5% in Q3 2025), and the company has a clear path to gross margin expansion through:

1. Higher-margin subscription revenue growing faster than payments
2. Payments take rate increases
3. Operating leverage in payments infrastructure
4. Reduced hardware cost per location

### 4.3 Operating Margin Trajectory

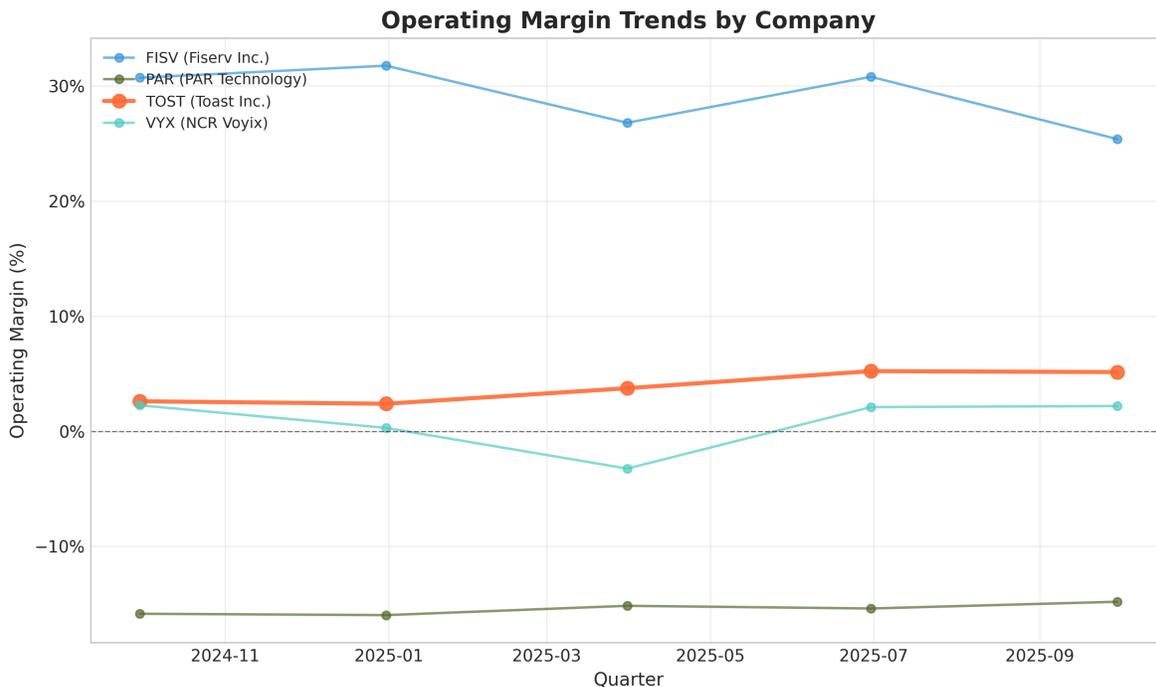


Figure 6: **Operating Margin Trends.** Toast (orange) demonstrates improving operating margins, crossing into positive territory in Q1 2025. NCR Voyix (green) shows volatile performance around breakeven. PAR (red) remains deeply negative despite revenue growth.

Toast’s operating margin improved from 2.6% (Q3 2024) to 5.1% (Q3 2025), demonstrating emerging operating leverage. The company achieved its first full year of GAAP profitability in FY 2024, a critical inflection point.

### 4.4 Rule of 40 Analysis

The Rule of 40 (revenue growth rate + profit margin) is a key health metric for growth companies. Companies scoring above 40 are considered to have achieved a sustainable balance between growth and profitability.



Figure 7: **Rule of 40 Analysis.** Toast (orange) scores 29.3, positioning well for a high-growth company. NCR Voyix (green) scores -1.2, indicating fundamental challenges. PAR (red) at 8.4 shows growth without profitability. Fiserv (blue) at 26.3 reflects mature, stable performance.

#### Rule of 40 Scores (LTM Q3 2025):

- **Toast:** 29.3 (25.1% growth + 4.2% margin) – Strong, improving
- **Fiserv:** 26.3 (0.9% growth + 25.4% margin) – Mature
- **PAR:** 8.4 (23.2% growth - 14.8% margin) – Unprofitable growth
- **NCR Voyix:** -1.2 (-3.4% growth + 2.2% margin) – Structurally challenged

#### 4.5 Competitive Moat Assessment

Toast has built durable competitive advantages through several mechanisms:

##### 1. High Switching Costs

- Integrated data (sales, inventory, labor, customers) creates lock-in
- Staff training and operational workflow dependencies
- Third-party integrations (200+ partners) increase friction
- Historical reporting and analytics continuity

##### 2. Network Effects

- Restaurant network enables Toast Capital underwriting advantages
- Supplier network effects (food distributors, service providers)
- Labor marketplace potential (Toast Pay Cards, payroll)

### **3. Data Moat**

- Proprietary sales data across 148,000+ locations
- Real-time transaction data enables superior credit decisions
- Benchmarking and analytics value increases with scale

### **4. Product Velocity**

- Cloud-native architecture enables rapid feature deployment
- Continuous over-the-air updates vs. legacy manual upgrades
- API-first design enables ecosystem expansion

## 5 Competitive Analysis: The Short Thesis

### 5.1 Market Share Dynamics

The competitive landscape reveals a clear pattern of share transfer from legacy vendors to cloud-native platforms, validating the short thesis.

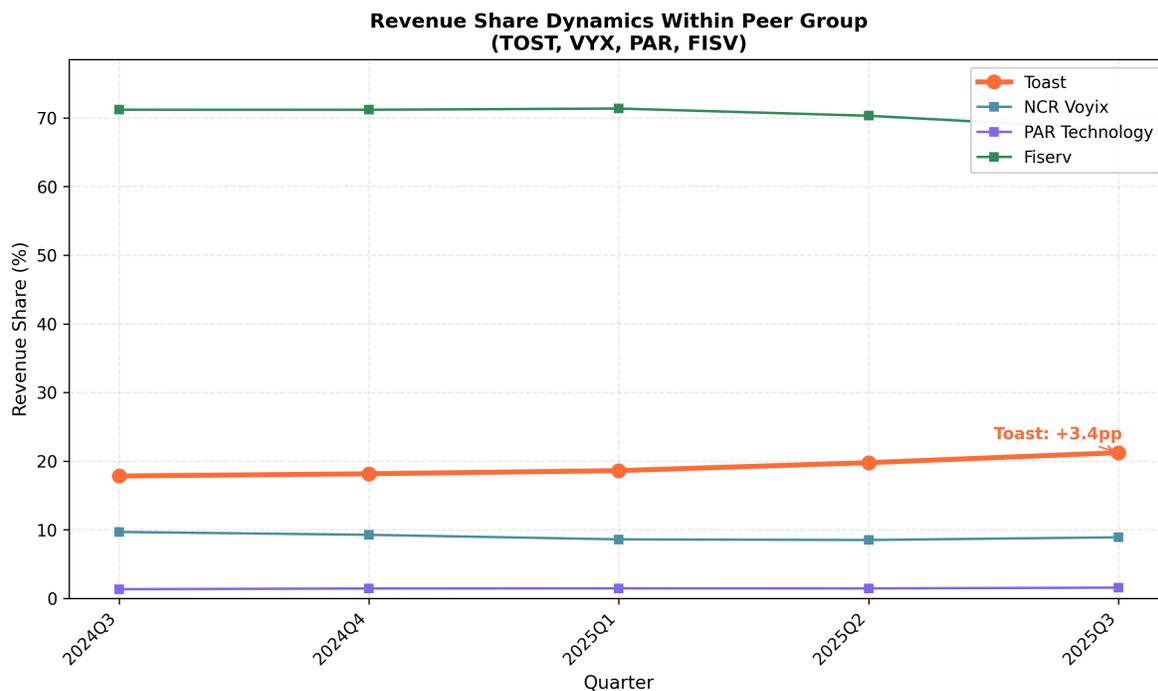


Figure 8: **Revenue Share Dynamics (Q3 2024 - Q3 2025)**. Toast (orange) expanded from 17.8% to 21.2% (+3.4pp). Fiserv (blue) contracted from 71.2% to 68.4% (-2.8pp). NCR Voyix (green) declined from 9.7% to 8.9% (-0.8pp). Share transfer from legacy to cloud-native is evident.

#### Market Share Changes (Q3 2024 to Q3 2025):

- **Toast:** 17.8% → 21.2% (+3.4pp) – **Gaining**
- **Fiserv:** 71.2% → 68.4% (-2.8pp) – **Losing**
- **NCR Voyix:** 9.7% → 8.9% (-0.8pp) – **Losing**
- **PAR:** 1.3% → 1.5% (+0.2pp) – **Stable**

## 5.2 Indexed Revenue Growth Comparison

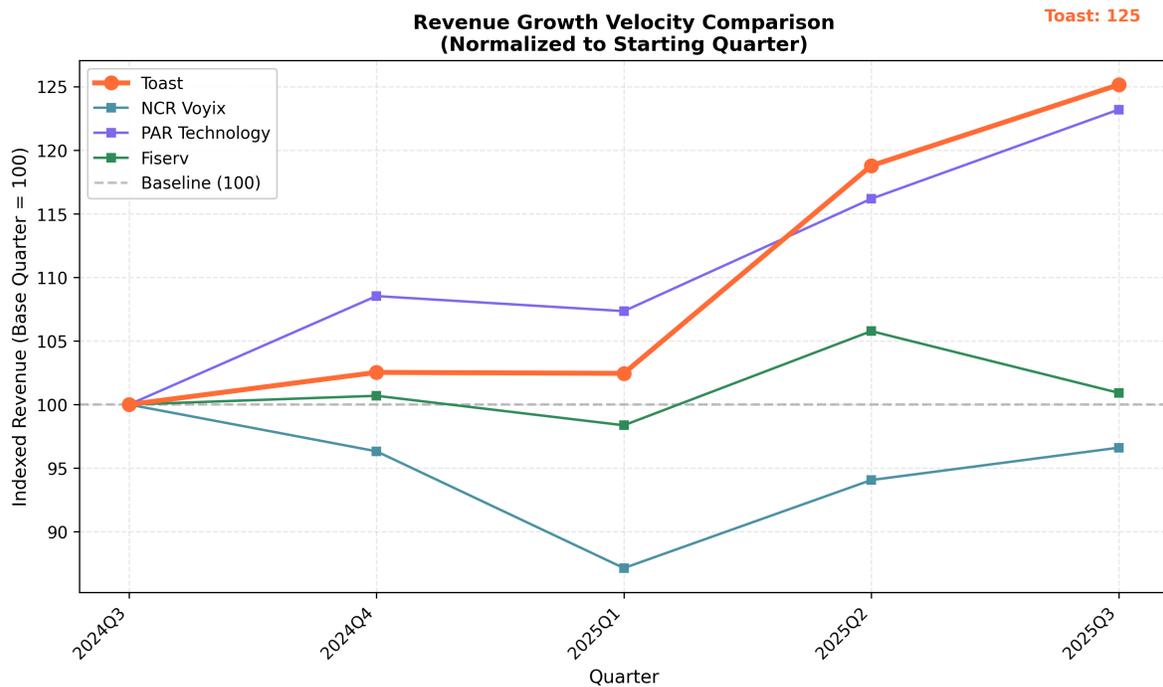


Figure 9: **Indexed Revenue Growth (Q3 2024 = 100)**. Toast (orange) achieved 125.1 (+25.1%) indexed growth over 5 quarters. PAR (red) grew to 123.2 but remains subscale. Fiserv (blue) and NCR Voyix (green) were essentially flat, demonstrating structural growth challenges.

The indexed growth analysis reveals the divergence in growth trajectories:

- **Toast:** 125.1 indexed value (+25.1% from baseline)
- **PAR:** 123.2 indexed value (+23.2% from baseline)
- **Fiserv:** 100.9 indexed value (+0.9% from baseline)
- **NCR Voyix:** 96.6 indexed value (-3.4% from baseline)

## 5.3 Stock Performance: Thesis Validation

The market has clearly differentiated between winners and losers in the restaurant technology space.

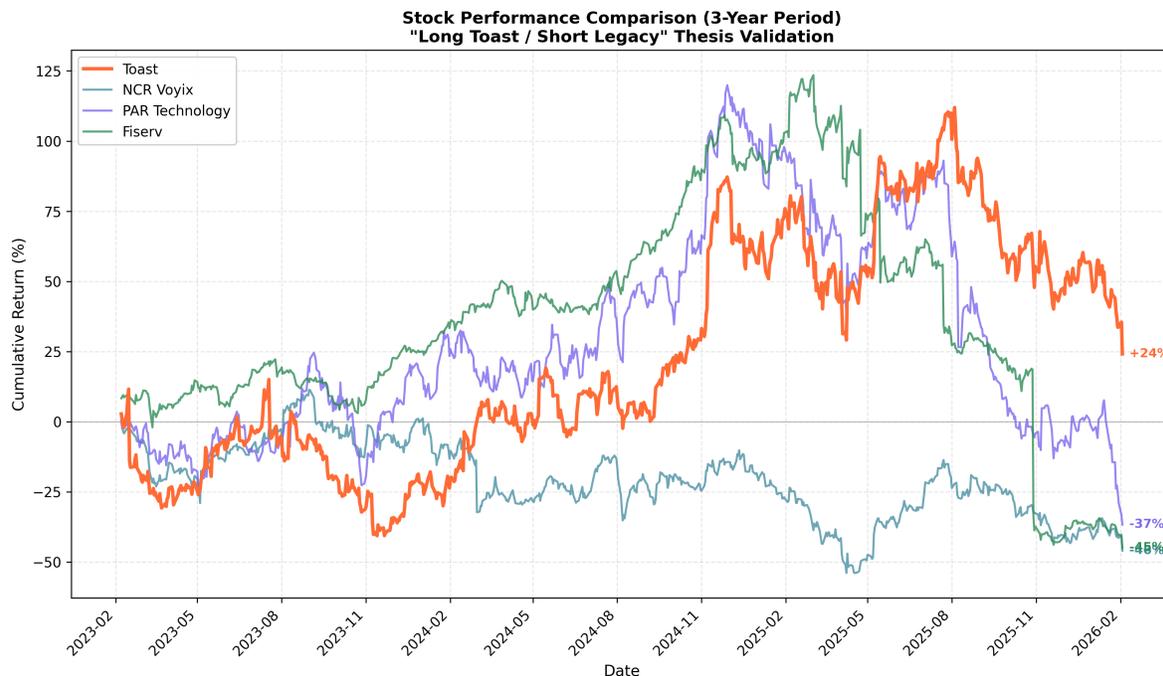


Figure 10: **Cumulative Stock Returns.** Toast (orange) achieved +24.2% cumulative returns over the analysis period, dramatically outperforming legacy peers. NCR Voyix (green) -46.0%, Fiserv (blue) -44.9%, and PAR (red) -36.7% demonstrate market recognition of structural challenges.

#### Cumulative Returns (Analysis Period):

- **Toast:** +24.2%
- **Legacy Peer Average:** -41.3%
- **Long/Short Spread:** +65.5%

The 65.5 percentage point spread between Toast and legacy peer average validates the pair trade thesis and demonstrates strong market conviction in the competitive dynamics.

## 5.4 Why Legacy Vendors Are Structurally Disadvantaged

### 5.4.1 Technology Debt

Legacy vendors face fundamental architectural disadvantages:

- **On-Premise Limitations:** Cannot deliver continuous updates or real-time analytics
- **Integration Friction:** Proprietary systems limit ecosystem partnerships
- **Development Velocity:** Slower release cycles vs. cloud-native competitors
- **Customer Experience:** Multi-week implementations vs. same-day deployment

### 5.4.2 Business Model Mismatch

- **Hardware Dependency:** Declining hardware sales create revenue headwinds
- **Fintech Gap:** Limited payments/lending integration vs. Toast's 81.7% fintech revenue

- **Data Disadvantage:** Batch processing vs. real-time transaction data
- **Customer Economics:** Lower ARPU expansion potential

### 5.4.3 Short Candidate Selection

#### Primary Short: NCR Voyix (VYX)

- Highest conviction short based on revenue decline and operational challenges
- Post-spin restructuring creates execution risk
- Restaurant segment (-7% YoY) core to remaining business
- Target price: \$6-7 (current: \$9.16)

#### Secondary Short: PAR Technology (PAR)

- Lower conviction given enterprise momentum
- Negative operating margins indicate unsustainable growth
- Small scale limits competitive positioning
- Target price: \$18-20 (current: \$23.38)

## 6 Valuation Framework and Sensitivity Analysis

### 6.1 Relative Valuation Analysis

Toast commands a premium valuation relative to legacy restaurant technology peers, reflecting market expectations for superior growth and margin expansion.

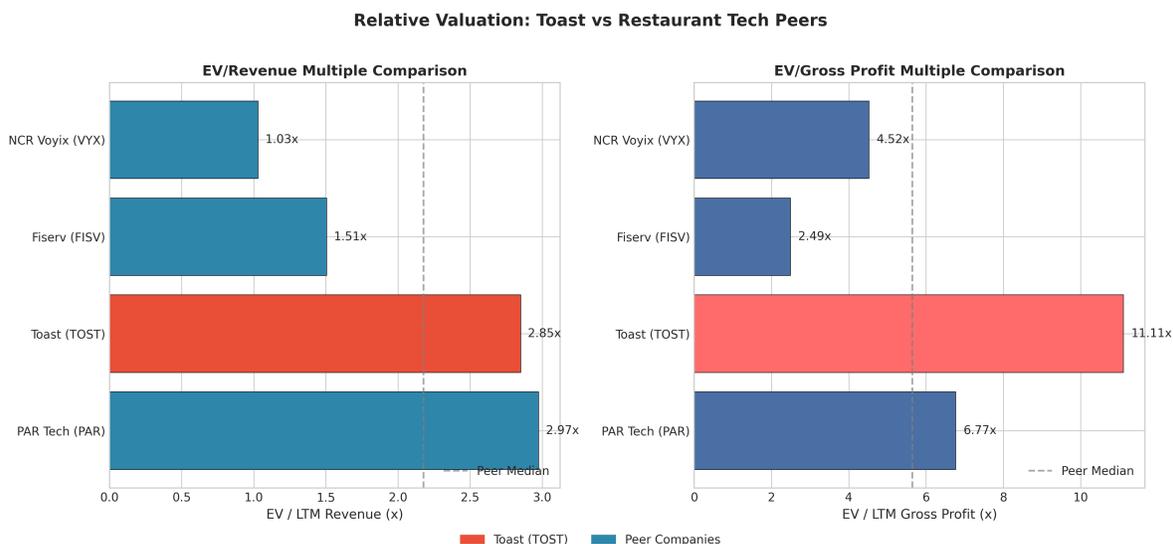


Figure 11: **Valuation Multiples Comparison.** Toast (orange) trades at 2.85x EV/Revenue and 11.1x EV/Gross Profit, representing significant premiums to peers. The premium reflects growth expectations but creates execution risk.

#### EV/Revenue Multiples (LTM Q3 2025):

- **Toast:** 2.85x
- **PAR:** 2.97x
- **Fiserv:** 1.51x
- **NCR Voyix:** 1.03x
- **Peer Median:** 1.51x
- **Toast Premium:** +89% vs. peer median

#### EV/Gross Profit Multiples (LTM Q3 2025):

- **Toast:** 11.1x
- **PAR:** 6.8x
- **NCR Voyix:** 4.5x
- **Fiserv:** 2.5x
- **Peer Median:** 4.5x
- **Toast Premium:** +147% vs. peer median

## 6.2 Vertical SaaS Valuation Context

Toast's valuation should be contextualized within the broader vertical SaaS market [Aventis Advisors, 2025, Software Equity Group, 2024]:

- **2025 Median SaaS Revenue Multiple:** 3.8x (recovery from 2.9x in 2024)
- **Q4 2024 Median EV/TTM Revenue:** 4.1x (+8% YoY)
- **Vertical SaaS Specific:** 3.3x median (October 2025)
- **Premium Drivers:** Net Retention  $\geq 120\%$  commands 11.7x median (109% premium)

Toast's 2.85x EV/Revenue is actually *below* the broader SaaS median, suggesting the premium relative to legacy restaurant tech peers may be justified given the company's SaaS-like characteristics (recurring revenue, high switching costs, network effects).

## 6.3 Margin Sensitivity Analysis

A critical question for Toast investors is the path to sustainable profitability. We modeled 25 scenarios varying revenue growth (15-35%) and operating expense growth (5-25%) over a 3-year projection period.

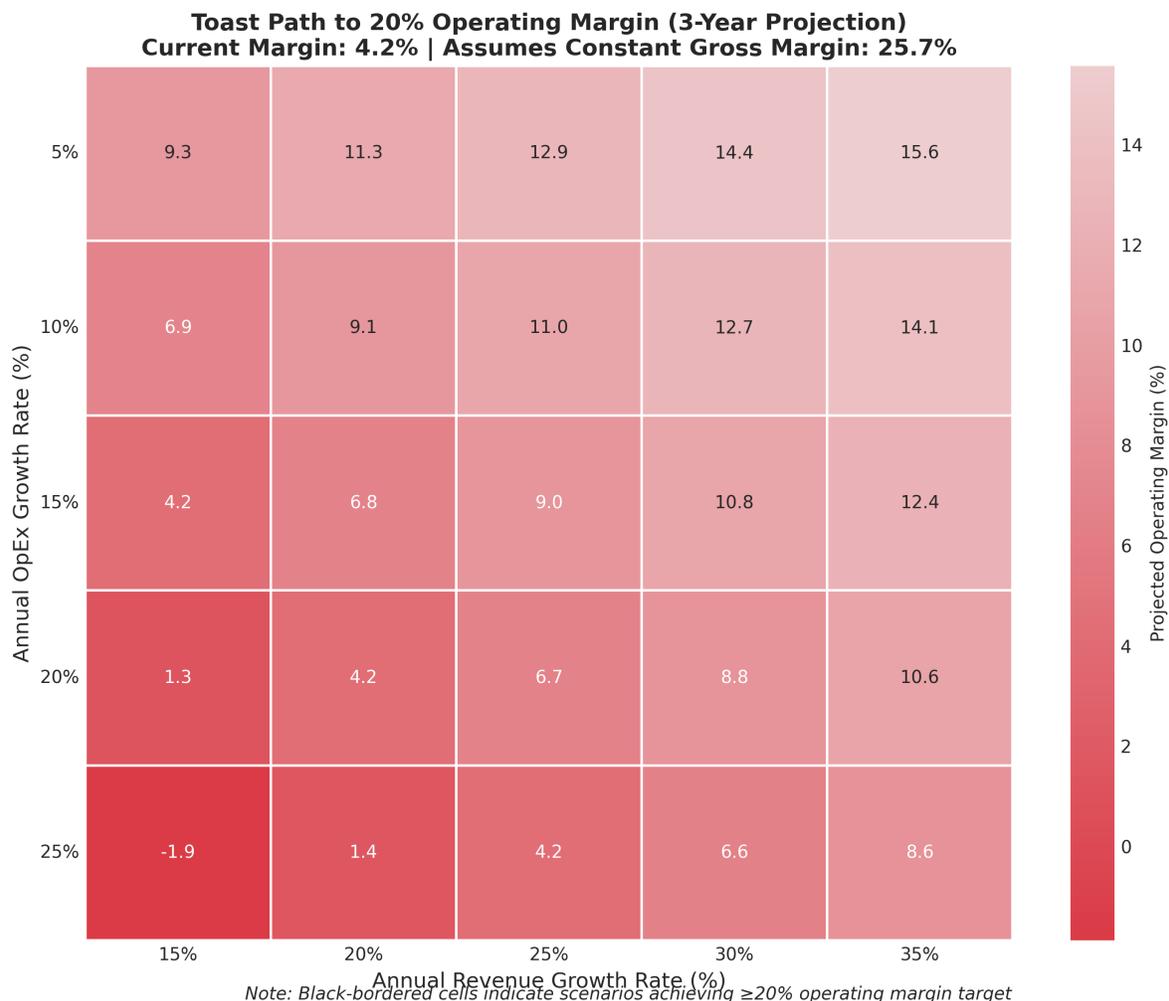


Figure 12: **Operating Margin Sensitivity Analysis (3-Year Projection)**. The heatmap shows projected operating margins under 25 scenarios. Key finding: **0 of 25 scenarios achieve 20%+ operating margin** without gross margin expansion, highlighting the critical importance of fintech attach rate improvement.

**Key Sensitivity Analysis Findings:**

Table 4: Margin Sensitivity Scenarios (Selected)

Rev Growth	OpEx Growth	3Y Revenue	3Y Op Income	Op Margin	Achieves 20%?
35%	5%	\$14.4B	\$2.24B	15.6%	No
35%	10%	\$14.4B	\$2.03B	14.1%	No
30%	5%	\$12.9B	\$1.85B	14.4%	No
25%	5%	\$11.4B	\$1.48B	12.9%	No
25%	15%	\$11.4B	\$1.03B	9.0%	No
20%	10%	\$10.1B	\$0.93B	9.1%	No
15%	25%	\$8.9B	-\$0.17B	-1.9%	No

**Critical Insight:** The analysis reveals that achieving 20%+ operating margins requires gross margin expansion beyond the current 25.7% level. With constant gross margins, even the most optimistic scenario (35% revenue growth, 5% OpEx growth) only achieves 15.6% operating margin.

**Path to 20% Operating Margin:**

1. **Gross Margin Expansion:** Must improve from 25.7% to 30%+ through higher fintech attach and subscription mix
2. **Revenue Growth:** Maintain 25%+ annual growth to drive operating leverage
3. **OpEx Discipline:** Keep OpEx growth below 15% annually
4. **Timeline:** 4-5 years vs. 3 years to achieve target

#### 6.4 Scenario-Based Valuation

**Bull Case (\$42 target, +45%):**

- Revenue growth sustains 25%+ for 3 years
- Gross margin expands to 30% through fintech attach
- Operating margin reaches 15%+ by Year 3
- Multiple re-rates to 4.0x EV/Revenue (SaaS premium)

**Base Case (\$38 target, +35%):**

- Revenue growth moderates to 20%
- Gross margin stable at 26-27%
- Operating margin reaches 10% by Year 3
- Multiple stable at 3.0x EV/Revenue

**Bear Case (\$22 target, -25%):**

- Competitive pressure from Clover intensifies
- Revenue growth decelerates to 15%
- Margin expansion stalls
- Multiple compresses to 2.0x EV/Revenue

## 7 Risk Factors

### 7.1 Long Position Risks (Toast)

#### 1. Valuation Premium Risk

- Toast trades at 89% premium to peer median on EV/Revenue
- Any execution miss could trigger significant multiple compression
- Stock trades at 65.6x trailing P/E, requiring sustained earnings growth

#### 2. Competitive Risk

- Fiserv/Clover has \$272B GPV vs. Toast's \$135B and significant investment capacity
- Square for Restaurants could intensify SMB competition
- Oracle MICROS and NCR could accelerate cloud transitions

#### 3. Margin Expansion Risk

- 0 of 25 modeled scenarios achieve 20% operating margin without gross margin expansion
- Fintech attach rate expansion critical but not guaranteed
- Payments pricing pressure could limit gross margin improvement

#### 4. Customer Concentration Risk

- Heavy exposure to SMB restaurants (more cyclical than enterprise)
- Restaurant failure rates remain elevated post-pandemic
- Single vertical exposure limits diversification

### 7.2 Short Position Risks (NCR Voyix, PAR)

#### 1. Turnaround Risk

- NCR Voyix Q3 2025 showed margin improvement (35.2% restaurant EBITDA margin)
- Post-Digital Banking sale provides capital for strategic initiatives
- Management executing on restructuring could accelerate timeline

#### 2. Acquisition Risk

- Both VYX and PAR are potential acquisition targets
- Private equity interest in restaurant tech remains high
- Strategic acquirer (e.g., payments company) could pay premium

#### 3. Enterprise Momentum (PAR)

- PAR winning enterprise deals (Papa Johns, Burger King, Wendy's)
- Enterprise segment less susceptible to Toast competition
- Revenue growth (+23%) suggests business model traction

### **7.3 Macro Risks (Both Positions)**

#### **1. Consumer Discretionary Exposure**

- Restaurant industry highly sensitive to economic conditions
- Recession would pressure all vendors through customer churn
- Labor cost inflation could reduce operator tech budgets

#### **2. Interest Rate Environment**

- Higher rates pressure growth stock valuations
- Toast Capital lending economics sensitive to rate environment
- Restaurant capital expenditure decisions affected by financing costs

#### **3. Regulatory Risk**

- Payments interchange regulation could affect Toast fintech economics
- Labor classification rules could affect payroll product
- Data privacy regulations evolving

## 8 Conclusion and Investment Recommendation

### 8.1 Thesis Summary

The restaurant point-of-sale market is undergoing a fundamental transformation from legacy, hardware-centric architectures to cloud-native, fintech-enabled platforms. Toast has emerged as the clear category winner, demonstrating:

- **Superior Growth:** 25.1% revenue growth vs. peers flat or declining
- **Market Share Gains:** +3.4pp share expansion over 5 quarters
- **Profitability Inflection:** First full year of GAAP profitability in FY 2024
- **Stock Validation:** +24.2% return vs. -41.3% for legacy peers
- **Durable Moat:** High switching costs, data advantages, fintech attach

Legacy vendors face structural headwinds from technology debt, business model mismatch, and competitive displacement. NCR Voyix represents the highest-conviction short with declining revenues, persistent losses, and market share erosion.

### 8.2 Investment Recommendation

Table 5: Final Investment Recommendation

Position	Ticker	Action	Target	Return	Conviction
LONG	TOST	<b>BUY</b>	\$38-42	+35-45%	<b>High</b>
SHORT	VYX	<b>SELL</b>	\$6-7	+25-35%	<b>Medium</b>
SHORT	PAR	<b>SELL</b>	\$18-20	+15-25%	<b>Low</b>

### 8.3 Position Sizing and Entry Points

#### Long Position (TOST):

- **Entry Zone:** \$26-30 (current: \$28.89)
- **Position Size:** 3-5% of portfolio
- **Stop Loss:** \$22 (-24% from entry)
- **Catalyst Timeline:** Q4 2025 / Q1 2026 earnings

#### Short Position (VYX):

- **Entry Zone:** \$8-10 (current: \$9.16)
- **Position Size:** 1-2% of portfolio
- **Stop Loss:** \$12 (-31% from entry)
- **Cover Target:** \$6-7

### 8.4 Monitoring Metrics

Key metrics to monitor for thesis validation/invalidation:

1. **Toast Net Location Adds:** Target 25,000+ annually

2. **Toast Gross Margin:** Target progression toward 28-30%
3. **Toast Operating Margin:** Target 8-10% by FY 2026
4. **NCR Voyix Restaurant Revenue:** Monitor for stabilization/turnaround
5. **Clover GPV Growth:** Competitive intensity indicator
6. **Restaurant Industry Sales:** Macro health proxy

## 8.5 Final Assessment

### **Thesis Verdict: SUPPORTED WITH CAVEATS**

The investment thesis is fundamentally supported by the analysis. Toast demonstrates superior operational execution, market share gains, and improving unit economics relative to structurally challenged legacy vendors. The pair trade construction provides downside hedging while capturing the competitive displacement dynamic.

**Key Caveat:** Toast's 89% valuation premium to peers creates meaningful execution risk. The sensitivity analysis reveals that achieving bull-case returns requires gross margin expansion that is not guaranteed. Position sizing should reflect this elevated risk profile.

**Recommendation:** Initiate long position in TOST and short position in VYX with disciplined position sizing and active monitoring of key performance indicators.

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*End of Investment Memo*

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## A Data Sources and Methodology

### A.1 Financial Data

Financial data for all analyzed companies was sourced from Yahoo Finance API and company SEC filings. Quarterly data covers Q3 2024 through Q3 2025 (5 quarters). Last-twelve-month (LTM) figures are calculated as the trailing four quarters ending Q3 2025.

### A.2 Macro Data

Restaurant industry macro data sourced from Federal Reserve Economic Data (FRED):

- **RSAFS:** Retail Sales: Food Services and Drinking Places
- **CES7072200001:** All Employees: Accommodation and Food Services

### A.3 Market Data

Daily stock price data sourced from Yahoo Finance. Cumulative returns calculated from September 30, 2024 through January 31, 2026.

### A.4 Valuation Methodology

- **Enterprise Value:** Market Cap + Total Debt - Cash & Equivalents
- **LTM Revenue/Gross Profit/Operating Income:** Trailing four quarters
- **Sensitivity Analysis:** 3-year DCF-style projection with 25 scenarios

### A.5 Limitations

- Square for Restaurants excluded due to segment reporting limitations
- Oracle MICROS excluded (not publicly traded as standalone)
- Fiserv Clover segment data estimated from management commentary
- Market share calculations based on revenue of analyzed peer group only

## B Company Profiles

### B.1 Toast, Inc. (NYSE: TOST)

**Headquarters:** Boston, Massachusetts

**Founded:** 2011

**IPO:** September 2021

**Employees:** 5,000

**CEO:** Aman Narang

**Business Description:** Toast is a cloud-based, all-in-one digital technology platform built for the restaurant community. The company provides a single platform of SaaS products, financial technology solutions, and hardware.

**Key Products:**

- Toast POS (point-of-sale)
- Toast Payments (integrated payment processing)
- Toast Capital (working capital loans)
- Toast Payroll (payroll and team management)
- Toast Online Ordering and Delivery
- Toast Marketing (email, SMS, loyalty)
- Toast Invoicing and xtraCHEF (back office)

### B.2 NCR Voyix Corporation (NYSE: VYX)

**Headquarters:** Atlanta, Georgia

**Spin-off:** October 2023 (from NCR Corporation)

**Employees:** 16,000

**CEO:** David Wilkinson

**Business Description:** NCR Voyix provides software and services for retail stores and restaurants, focusing on point-of-sale, digital banking (sold September 2024), and payment solutions.

**Key Segments:**

- Restaurant (Aloha POS, NCR Voyix Platform)
- Retail (POS, self-checkout)
- Payments (processing services)

### B.3 PAR Technology Corporation (NYSE: PAR)

**Headquarters:** New Hartford, New York

**Founded:** 1968

**Employees:** 1,600

**CEO:** Savneet Singh

**Business Description:** PAR Technology provides enterprise restaurant technology solutions, including POS systems and back-office management software primarily for multi-unit restaurant chains.

**Key Products:**

- Brink POS (cloud-native enterprise POS)
- Punchh (loyalty and engagement)
- PAR Payment Services
- Data Central (above-store management)