

**ATLANTIC WALK RESEARCH**

**3/2/2026**

**Butterfly Network, Inc. (NYSE: BFLY)  
FY2025 Earnings Update**





Key Stats	
Initiation Date	2/23/2026
Initiation Price	\$3.06
Price	\$3.79
Price Target	\$6.97
52 Week High - Low	\$1.32 - \$5.03
Shares Outstanding - Mil	227.39
Market Cap - Mil	\$ 957
Book Value / Share	\$0.77
Cash per Share	\$0.59
Dividend	N/A

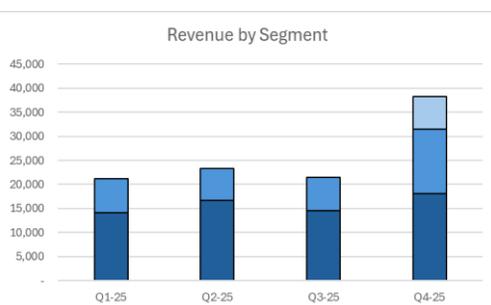
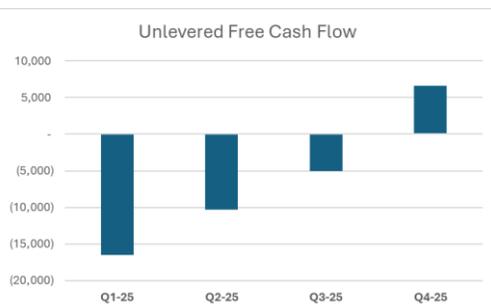
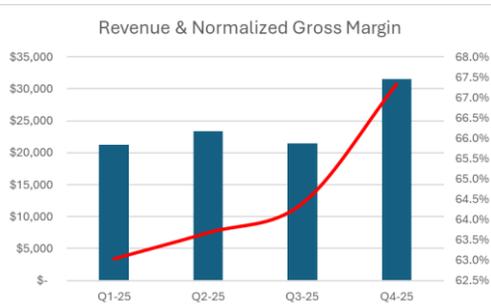
- ### Key Catalysts
- Embedded deal flow: additional Butterfly Embedded partner wins beyond Midjourney.
  - Embedded revenue proof: sequential, repeatable quarterly contribution
  - Margin validation: sustained gross margin near Q4 exit-rate
  - FY26 execution: tracking toward \$117-\$121M revenue with EBITDA loss narrowing to \$(21)-\$(25)M.
  - HomeCare commercialization: first commercial agreement by H2-26 and initial proof points on cost-out outcomes.

## Embedded Economics Begin to Surface

Butterfly Network’s fourth quarter results provide the first clean financial evidence that the company’s platform transition is beginning to surface in reported results. While the business remains in the early stages of its transformation, the combination of Embedded revenue contribution, gross margin expansion, and positive operating cash flow represents a meaningful step toward validating our thesis that Butterfly is evolving beyond a hardware-centric model.

## Financials

Revenue for the quarter reflected continued momentum, but the more important development was mix. Management disclosed that \$6.8 million of



Q4 revenue was attributable to the Midjourney agreement, advancing the Butterfly Embedded (formerly Octiv) strategy. This contribution is important not simply for its absolute dollar value, but for what it represents structurally. Embedded licensing revenue carries materially higher margin characteristics than device sales and signals that the Embedded strategy is not theoretical optionality but an active and monetizing component of the business.

Gross margin expanded to 67.3% in Q4-25, up meaningfully year over year. We view Q4’s 67.3% as the more relevant exit-rate margin, while FY25 results were distorted by inventory-related charges earlier in the year. Management attributed the improvement primarily to high-margin Embedded revenue and lower software amortization. This is precisely the financial signature expected from the transition to platform economics and higher margin software and licensing revenues. The directional shift is consistent with our expectation that incremental licensing and application revenue should lift consolidated margins over time.

Cash flow dynamics also improved, as the company posted its first quarter of positive operating cash flow in Q4. While sustainability will depend on continued revenue scaling and expense discipline, the inflection supports the view that operating leverage is emerging as revenue grows.



Combined with the company's net operating loss carryforwards, which defer future cash taxes, this strengthens our conviction that future EBIT will convert efficiently into free cash flow as profitability is achieved.

## Strategic Positioning

From a strategic perspective, management reiterated progress across all three pillars of the thesis. On the application ecosystem, the company continues to expand Butterfly Garden and disclosed plans to release its 3D beam steering API to third-party developers in 2026. Opening previously internal capabilities to external developers expands the innovation surface area and reinforces the argument that Butterfly is not a hardware vendor, it is building an imaging platform.

On the Embedded and licensing front, the Midjourney economics remain intact, and management indicated that their pipeline includes an additional 8-9 prospective partnerships. Importantly, partners are funding development costs associated with products built on Butterfly's semiconductor stack, suggesting that incremental use cases can expand without significant internal R&D spend, and could also include opportunities for chip sales and revenue sharing, according to management. This capital-efficient scaling dynamic is central to the long-term margin story.

Management also highlighted that Butterfly's iQ+/iQ3 and Compass AI solution achieved GovRAMP and TX-RAMP Authorizations, enabling the company to sell cloud services to state and local government agencies, including Texas. The company also expects to secure FedRAMP certification in 2026, which would further expand eligibility for federal deployments.

On the core technology roadmap, management reiterated that the Apollo platform is designed to support higher-fidelity imaging capabilities, including harmonic imaging, and expressed confidence that the system could ultimately address use cases traditionally served by cart-based ultrasound systems. While timing remains execution-dependent, this outlines a clear medium-term validation path for Butterfly's expansion into higher-acuity clinical workflows.

## Guidance

Guidance for FY2026 calls for revenue in the range of \$117 million to \$121 million, representing approximately 20% to 24% growth, and an adjusted EBITDA loss of \$21 million to \$25 million. This outlook reflects continued investment but implies narrowing losses as revenue expands. While the company is not yet profitable, the trajectory aligns with a gradual shift toward a more software- and licensing-weighted revenue mix.

## What Changed

Q4 marked the first quarter where Embedded economics were visible in reported results, with \$6.8 million of revenue tied to the Midjourney agreement and gross margin expanding to a 67.3% exit rate. This reduces uncertainty around the viability of the licensing model and signals that the platform transition is moving from concept to contribution. The company also achieved its first quarter of positive operating cash flow, reinforcing the trajectory toward operating leverage.



## What We're Watching & KPIs

The next phase of the thesis hinges on durability rather than proof-of-concept, particularly the conversion of the broader Embedded pipeline into revenue-generating partnerships, the sustainability of gross margin near Q4 levels absent one-time distortions, and evidence that core hardware and software revenues can stabilize and grow alongside licensing.

Key KPIs include quarterly Embedded revenue contribution and partner additions, gross margin sustainability near the Q4 exit-rate, hardware unit growth and ASP stability, software subscriber growth and ARPU progression, and the timing of initial HomeCare commercialization.

## Summary

Taken together, Q4 does not complete the transformation narrative, but it materially strengthens it. Embedded revenue is now visible in reported results. Gross margin expansion is occurring alongside mix shift. Cash flow discipline is improving. The application ecosystem continues to broaden, and developer enablement is progressing. These elements collectively reduce execution uncertainty relative to prior quarters.

We view the quarter as supportive of the base case and modestly de-risking the long-term platform thesis. We reiterate our \$6.97 price target with increased conviction, reflecting our base-case view that Embedded ramps while core hardware/software stabilize and operating losses narrow toward management's FY26 framework.

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