



WEALTH PRESERVATION
EQUITY RESEARCH

FICO

Fair Isaac Corporation

NYSE: FICO | Technology — Analytics Software

RECOMMENDATION: BUY

Current Price: \$1,283 | Fair Value (Base): \$2,180 | Margin of Safety: 41.1%

Wealth Preservation Score: 67/100 | Expected Total Return: 13.6% CAGR

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Analyst: Moschovakis Capital Research

Classification: Confidential — Institutional Use Only

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EXECUTIVE SUMMARY

Metric	Value	Metric	Value
Recommendation	BUY	Wealth Preservation Score	67 / 100
Current Price	\$1,283.00	Downside Protection Score	55 / 100
Fair Value (Base Case)	\$2,180.00	Quality Score	50 / 100
Margin of Safety	41.1%	Risk Level	MODERATE
Target Entry	At Market	Prob. of >50% Loss	<5%

Return Profile

Metric	Value
Dividend Yield	0.0% (No Dividend)
Expected EPS Growth (Base)	15.0% CAGR
Expected Price Appreciation	13.9% CAGR
Total Expected Return (Base)	13.9% CAGR
Bear Case Total Return	2.5% CAGR
Bull Case Total Return	24.1% CAGR
Probability-Weighted Return	13.6% CAGR

One-Line Thesis

FICO's near-monopoly in U.S. credit scoring, 82% gross margins, massive free cash flow generation, and aggressive share repurchases create a uniquely defensible compounder trading at a 41% discount to base-case fair value following a significant correction from 52-week highs.

Investment Thesis

Fair Isaac Corporation occupies one of the most formidable competitive positions in American business. The FICO Score is used by 90% of top U.S. lenders and is cited in 98.8% of securitized lending decisions. This effective monopoly enables extraordinary pricing power — the company has consistently raised per-score pricing with minimal customer attrition, driving 16% revenue growth and 27% earnings growth in fiscal 2025. The business requires negligible capital expenditure (\$8.9M on \$2.0B revenue), generating \$770M in free cash flow at a 39% FCF margin.

The stock has corrected approximately 42% from its 52-week high of \$2,215 to the current \$1,283, creating what we believe is an attractive entry point for a business of this quality. At the current price, the forward P/E of ~38x on fiscal 2026 guided EPS of \$33.47 is well below the stock's historical trading range and represents a meaningful discount to the company's intrinsic value given its growth trajectory and monopoly economics.

The primary risk factors for wealth preservation are the absence of dividend income (FICO does not pay a dividend), negative shareholder equity resulting from aggressive buybacks, and a still-premium valuation relative to the broader market. However, the company's exceptional cash generation, near-indestructible competitive position, and shareholder-friendly capital return program (repurchasing ~3% of shares annually) provide substantial downside protection. The bear case preserves capital with a positive 2.5% CAGR, while the base case delivers a 13.9% CAGR — well above our 7% hurdle rate.

1. BUSINESS QUALITY ASSESSMENT

Business Model

FICO operates through two segments: **Scores** (59% of revenue, ~89% EBIT margins) and **Software** (41% of revenue). The Scores segment provides the FICO Score — the dominant consumer credit scoring standard in the United States — to lenders, insurers, and other financial institutions through B2B channels, as well as directly to consumers via myFICO.com. The Software segment provides analytics and decision management platforms for fraud detection, account origination, customer management, and marketing optimization.

The business model is extraordinarily asset-light. FICO does not own, collect, or store consumer credit data — the three credit bureaus (Equifax, Experian, TransUnion) distribute FICO Scores using FICO's proprietary algorithms applied to their data. This means FICO earns a royalty on every score generated with virtually zero marginal cost. The company employed just 3,810 people as of fiscal 2025 while generating nearly \$2 billion in revenue.

Competitive Moat

Moat Type	Evidence	Durability	Preservation Value
De Facto Standard / Monopoly	Used by 90% of top lenders; 98.8% of securitizations	10 / 10	Exceptional
Switching Costs	Embedded in lending workflows, regulatory frameworks, GSE mandates	9 / 10	Exceptional
Network Effects	More data improves model accuracy; virtuous cycle	8 / 10	Excellent
Regulatory Entrenchment	GSEs mandate FICO Scores; LLPA grids reference FICO	9 / 10	Exceptional

Primary Moat: De Facto Monopoly / Industry Standard — Durability: 10/10. The FICO Score has been the dominant credit scoring methodology for over four decades. Fannie Mae and Freddie Mac mandate its use in mortgage underwriting. Switching would require coordinated action across the entire lending industry, credit bureaus, regulators, and secondary markets — a near-impossibility.

Moat Erosion Risk: LOW. VantageScore, developed by the three credit bureaus as a competitor, has gained minimal traction after nearly two decades. The DOJ opened and closed an antitrust investigation in 2020 without action. While regulatory risk exists (CFPB scrutiny, potential alternative data mandates), the embedded nature of FICO Scores in lending infrastructure makes displacement extremely unlikely within any reasonable investment horizon.

Market Position

Metric	Value
Industry Ranking	#1 — Effective Monopoly
Market Share (Credit Scoring)	~90% of major U.S. lending decisions
Securitization Standard	98.8% of U.S. securitized dollars cite FICO exclusively
Pricing Power	STRONG — Consistent above-inflation price increases
Customer Concentration	Low — Distributed across thousands of financial institutions

2. FINANCIAL FORTRESS ANALYSIS

Balance Sheet Strength

FICO's balance sheet presents a unique analytical challenge for traditional wealth preservation analysis. The company has negative shareholder equity of -\$1.7 billion, which is entirely a result of aggressive share repurchases (\$1.4B in fiscal 2025 alone) rather than accumulated operating losses. This is a hallmark of asset-light monopolies that generate massive free cash flow and return it to shareholders via buybacks. Traditional debt-to-equity metrics are not meaningful; we focus instead on interest coverage, FCF-to-debt ratios, and the Altman Z-Score (12.98 — indicating strong financial health).

Metric	Value	Threshold	Assessment
Debt / Equity	N/M (Negative Equity)	< 1.0x	See Note*
Interest Coverage (EBIT/Interest)	6.8x	> 5.0x	#10003;
Current Ratio	0.83x	> 1.5x	#10007;
Cash / Total Debt	4.2%	> 20%	#10007;
FCF Positive (5Y)	5 / 5	5 / 5	#10003;
Total Debt	\$3.2B	—	—
Wt. Avg. Interest Rate	5.22%	—	—
Debt Structure	87% Senior Notes	—	Favorable
Altman Z-Score	12.98	> 3.0	#10003;
FCF / Total Debt	24.1%	> 15%	#10003;

*Note: Negative equity is a function of \$4.5B+ in cumulative share repurchases, not operating losses. Operating cash flow covers debt service 6.8x over. FCF-to-debt ratio of 24% and Altman Z-Score of 12.98 confirm strong solvency despite negative book equity.

Solvency Verdict: ADEQUATE — While traditional balance sheet metrics flag concerns (negative equity, current ratio <1.0), the underlying cash flow generation is exceptionally strong. FICO generated \$770M in FCF on \$2.0B revenue (39% FCF margin) in fiscal 2025. Interest coverage of 6.8x provides adequate cushion, and 87% of debt is in long-dated senior notes with no significant maturities creating cliff risk. The \$415M revolving credit facility provides additional liquidity.

Profitability Metrics

Metric	FY2025	FY2024	FY2023	FY2022	Trend
Revenue (\$M)	\$1,991	\$1,718	\$1,514	\$1,377	↑
Gross Margin	82.2%	79.7%	79.5%	78.1%	↑
Operating Margin	46.5%	42.8%	42.4%	39.4%	↑
Net Margin	32.8%	29.9%	28.4%	27.1%	↑

Metric	FY2025	FY2024	FY2023	FY2022	Trend
FCF Margin	38.7%	36.3%	34.2%	32.8%	↑
ROIC	47.8%	38.2%	33.5%	30.1%	↑
ROA	35.8%	28.4%	25.1%	22.6%	↑

Every profitability metric is improving and at exceptional absolute levels. Gross margins above 82% reflect the near-zero marginal cost of score distribution. Operating margins approaching 47% and ROIC of 48% are among the highest in the software industry. The five-year margin expansion trend demonstrates ongoing pricing power and operating leverage.

3. EARNINGS QUALITY & CAPITAL ALLOCATION

Earnings Quality Check

Metric	Assessment
Operating Cash Flow vs. Net Income	OCF \$779M vs. NI \$652M = 119% — HIGH QUALITY
Receivables vs. Revenue Growth	In line — No revenue recognition concerns
One-Time Items	Q4 FY25 restructuring charge of \$10.9M — immaterial
Financial Restatements (5Y)	None
Accounting Practices	Conservative; clean audit opinions

Earnings Quality: HIGH — Cash flow consistently exceeds reported earnings, confirming genuine economic profit generation.

Dilution Analysis

Metric	Value
Shares Outstanding (FY2025)	24.0M
Shares Outstanding (FY2022)	25.6M
Shares Outstanding (FY2020)	29.2M
Annualized Change (5Y)	-3.9% (share count DECLINING)
FY2025 Buybacks	\$1.41B (833,000 shares)
Q1 FY2026 Buybacks	\$163M (95,000 shares)
Source of Reduction	Open market repurchases funded by FCF

Dilution Assessment: EXCELLENT — FICO is one of the most aggressive and consistent share repurchasers in the technology sector. Share count has declined nearly 20% over the past five years, directly enhancing per-share economics. FY2025 represented the highest annual repurchase level in company history at \$1.41B. While stock-based compensation creates some dilution, net share count is declining ~3-4% annually — an exceptional rate.

Dividend Analysis

FICO does not pay a dividend. The company has chosen to return capital exclusively through share repurchases. For the wealth preservation mandate, this is a notable limitation — there is no income floor or dividend cushion in a downturn. However, the aggressive buyback program effectively functions as a synthetic yield of ~4-5% (annual buyback spend relative to market cap), with the added benefit of tax efficiency versus cash dividends.

Dividend Sustainability: N/A — No dividend to assess. Capital return occurs exclusively through repurchases.

Capital Efficiency: ROIC/ROCE

ROIC: 47.8% vs. estimated WACC of ~9-10%. This represents enormous value creation — nearly 5x the cost of capital. The five-year ROIC trend is consistently improving, from ~30% in FY2022 to 48% in FY2025. This is a direct

consequence of FICO's asset-light model, monopoly pricing power, and expanding margins. **Verdict: VALUE CREATING — EXCEPTIONAL.**

4. VALUATION ANALYSIS

Relative Valuation

Metric	Current	5Y Avg	10Y Avg	Percentile	vs. History
P/E (Trailing)	48.3x	55.0x	48.0x	~35th	Below Average
P/E (Forward FY26E)	38.3x	45.0x	—	~25th	Attractive
EV/EBITDA	34.0x	42.0x	35.0x	~30th	Below Average
P/FCF	41.5x	50.0x	42.0x	~30th	Below Average
P/S	16.0x	20.0x	15.0x	~40th	Near Average

FICO is currently trading at the lower end of its historical valuation range on multiple metrics. The trailing P/E of 48x is below the 5-year average of ~55x, and the forward P/E of 38x on guided FY2026 EPS of \$33.47 represents one of the most attractive entry points in recent years. The stock's 42% decline from its September 2025 high of \$2,215 to the current \$1,283 has compressed multiples significantly.

Fair Value Calculation

Normalized EPS: \$28.50 (5-year average margin applied to TTM revenue)
Fair P/E Multiple: 50.0x (based on monopoly quality, 15%+ growth, 48% ROIC)
Fair Value: \$28.50 x 50.0 = **\$1,425** (conservative, using normalized EPS)
Forward Fair Value (FY26 EPS x Fair Multiple): \$33.47 x 45.0 = **\$1,506**
Base Case 3-Year Fair Value: ~\$2,180 (reflecting 15% EPS CAGR + modest re-rating)
Current Price: \$1,283
Margin of Safety to Base Case: 41.1%

Valuation Verdict: ATTRACTIVE — The stock trades at the lower quartile of its historical valuation range. While still premium relative to the broad market, this premium is justified by monopoly economics, 82% gross margins, 48% ROIC, and 15%+ earnings growth. The 42% correction provides a meaningful margin of safety.

5. SCENARIO ANALYSIS

10-Year Total Return Model

Since FICO pays no dividend, total return equals price appreciation. Starting EPS base: FY2026 guided GAAP EPS of \$33.47. Current price: \$1,283.

Scenario	Rev CAGR	EPS CAGR	Terminal P/E	10Y Price	Total CAGR	Weight
Bear	5.0%	7.0%	25.0x	\$1,646	2.5%	25%
Base	12.0%	15.0%	35.0x	\$4,740	13.9%	50%
Bull	18.0%	22.0%	45.0x	\$11,070	24.1%	25%

Probability-Weighted Expected Total Return: 13.6% CAGR

Calculation: $(25\% \times 2.5\%) + (50\% \times 13.9\%) + (25\% \times 24.1\%) = 0.6\% + 7.0\% + 6.0\% = 13.6\%$

Bear Case Assumptions (25% Probability)

Regulatory intervention limits FICO Score pricing power. VantageScore gains meaningful traction in non-mortgage lending. Mortgage origination volumes remain depressed. Software platform transition encounters headwinds. Multiple compresses to 25x as growth decelerates to mid-single digits. Even in this scenario, capital is preserved with a positive 2.5% CAGR, though this falls below inflation and does not meet our hurdle rate.

Base Case Assumptions (50% Probability)

FICO continues executing its pricing strategy with mid-teens revenue growth. Software platform ARR accelerates. FICO Score 10T adoption drives incremental mortgage revenue. Share count continues declining 2-3% annually, adding 2-3% to EPS CAGR beyond earnings growth. Multiple stabilizes at 35x as market recognizes the quality of the franchise.

Bull Case Assumptions (25% Probability)

FICO maximizes its pricing power across all verticals. International expansion gains traction. FICO Platform becomes a major SaaS revenue driver. AI-powered analytics (FICO FFM) opens new revenue streams. Mortgage origination volumes recover to above-trend levels. Multiple expands to 45x reflecting monopoly premium.

Downside Protection Analysis

Metric	Value
52-Week Low	\$1,201.78
52-Week High	\$2,215.00
Current Decline from Peak	-42.1%
Bear Case 10Y Price	\$1,646 (above current price)
Bear Case CAGR	+2.5% (capital preserved)
Maximum Interim Drawdown Risk	-20% to -30% in severe recession

Metric	Value
Permanent Capital Loss Probability	<5%

Critical Downside Check: Bear case total return is **positive (+2.5% CAGR)**. Capital is preserved even in a significantly adverse scenario. The current 42% correction from highs has already absorbed much of the valuation risk. Given FICO's monopoly position and massive cash flow generation, permanent capital impairment probability is estimated at less than 5%.

6. QUALITATIVE DEEP DIVE

Recession Performance History

Period	Revenue Change	EPS Impact	Stock Decline (Peak-Trough)	Recovery
2008-2009 (GFC)	~-10%	~-15%	~-55%	~24 months
2020 (COVID)	~-5%	~Flat	~-30%	~6 months
2024-2025 Correction	N/A (No recession)	+27% EPS	-42% (valuation-driven)	Ongoing

Recession Profile: SENSITIVE — FICO's revenue is moderately correlated with lending volumes, which decline in recessions. However, the 2020 experience showed improved resilience as the company offset volume declines with price increases. The current correction is entirely valuation-driven, not business-driven — FY2025 delivered record revenue and earnings. FICO maintained operations through both downturns without capital raises, dividend cuts (no dividend), or meaningful business disruption.

Management Quality & Capital Allocation

Attribute	Assessment
CEO	William J. Lansing — since January 2012 (14+ years)
Tenure	Exceptional — among longest-tenured tech CEOs
Track Record	5,333% cumulative TSR under tenure — top 1% of Russell 3000
Insider Ownership	~1.5% (\$617M value at peak)
Total Compensation (FY2025)	\$36M — High but heavily equity-weighted (98%)
Capital Allocation	Aggressive buybacks, no dilutive acquisitions
Board Structure	Independent Chairman (separate from CEO)

Management Quality: GOOD — Will Lansing has delivered exceptional shareholder returns over 14 years. Capital allocation has been disciplined: no large acquisitions, consistent buybacks funded by FCF, and steady margin expansion. The primary concern is insider selling (68 transactions in 6 months, all sales by Lansing) and high compensation (\$36M), though 98% is equity-linked and thus aligned with shareholders. The independent chairman structure provides governance oversight.

Capital Allocation Track Record: STRONG — The decision to return virtually all free cash flow through buybacks rather than dividends has been value-maximizing given FICO's premium valuation and tax-efficient nature of buybacks. No empire-building acquisitions. R&D; spending (\$188M, ~9.5% of revenue) is appropriate for the business model.

7. RISK ASSESSMENT

Risk Category	Score (1-10)	Key Concern	Mitigation
Balance Sheet	6	Negative equity; \$3.2B debt	FCF covers debt 24%; Z-Score 12.98
Earnings Volatility	3	Lending volume cyclical	Pricing power offsets volumes
Competitive Threat	2	VantageScore	Minimal traction after 20 years
Regulatory Risk	5	CFPB scrutiny; antitrust	DOJ investigation closed 2020
Management Risk	4	Key-man risk (Lansing)	14-year bench; independent board
Valuation Risk	5	48x trailing P/E still premium	42% correction; 38x forward
Concentration Risk	4	U.S. mortgage market exposure	Diversifying into software/global

Aggregate Risk Score: 4.1 / 10 (MODERATE) — The dominant risks are balance sheet structure and valuation, partially mitigated by the recent correction and exceptional cash flow generation. The competitive moat is among the strongest we have encountered in any analysis, reducing business risk to minimal levels.

Recession Stress Test

Metric	Value
Revenue Decline in Severe Recession	-10% to -15%
EPS Decline in Severe Recession	-15% to -20%
Expected Stock Drawdown	-25% to -40%
Dividend Action	N/A (No Dividend)
Capital Raise Required?	No — FCF remains positive in stress
Recovery Timeline	12-24 months based on historical precedent

8. PEER COMPARISON

FICO has no true direct competitor in credit scoring. The closest peers are the credit bureaus (which are FICO's distribution partners), analytics software companies, and other financial data providers.

Metric	FICO	Equifax (EFX)	Verisk (VRSK)	MSCI (MSCI)
Market Cap	\$31.9B	\$31.2B	\$42.8B	\$42.1B
Revenue (TTM)	\$2.0B	\$5.7B	\$3.0B	\$2.9B
Gross Margin	82.2%	56.8%	69.5%	82.0%
Operating Margin	46.5%	21.8%	42.5%	53.1%
Net Margin	32.8%	12.5%	30.2%	37.5%
ROIC	47.8%	8.5%	22.1%	32.5%
Revenue Growth (YoY)	15.9%	8.2%	7.5%	15.8%
P/E (Forward)	38.3x	32.0x	38.5x	40.2x
FCF Margin	38.7%	16.2%	35.0%	42.0%
Dividend Yield	0.0%	0.6%	0.5%	0.9%

Why FICO for Wealth Preservation: FICO possesses the highest ROIC (47.8%), the highest gross margins (82.2%), and the fastest revenue growth (15.9%) among peers. While it lacks a dividend (unlike peers offering 0.5-0.9% yields), its superior economics and monopoly position provide stronger fundamental downside protection than peers who face genuine competition. The forward P/E of 38x is comparable to peers despite significantly superior unit economics.

9. INVESTMENT DECISION FRAMEWORK

Wealth Preservation Scoring

Component	Score	Weight	Contribution	Details
Downside Protection	55 / 100	45%	24.8	Bear case positive; no dividend cushion
Return Adequacy	100 / 100	30%	30.0	Base case 13.9% CAGR exceeds 7% hurdle
Quality Score	50 / 100	25%	12.5	Monopoly moat offset by balance sheet structure
COMPOSITE WP SCORE	67 / 100	100%	67.3	Good candidate; standard position

Absolute Requirements Check

Requirement	Result	Pass/Fail
Bear case total return >= 0%	+2.5% CAGR	✓ PASS
Base case total return >= 7%	13.9% CAGR	✓ PASS
Solvency: FORTRESS or ADEQUATE	ADEQUATE	✓ PASS
Dividend sustainability (if any)	N/A — No Dividend	✓ PASS (N/A)
Prob. of >50% permanent loss <10%	<5%	✓ PASS

All absolute requirements PASS. FICO qualifies for the wealth preservation mandate.

Position Sizing

WP Score	Expected CAGR	Downside Protection	Recommended Size	Rationale
67	13.9%	Bear case +2.5%	Standard Position	Good candidate; meets all criteria

10. KEY METRICS SUMMARY

Metric	Value
Wealth Preservation Score	67 / 100
Fair Value Range	\$1,425 — \$2,180
Current Price	\$1,283
Margin of Safety	41.1% (to Base Case)
Expected Total Return (Base)	13.9% CAGR
Bear Case Return	+2.5% CAGR
Bull Case Return	+24.1% CAGR
Probability-Weighted Return	13.6% CAGR
Dividend Yield + Growth	0.0% + 0.0% (No Dividend)
Effective Buyback Yield	~4-5% annually
ROIC vs. WACC	47.8% vs. ~9.5%
Probability of Permanent Loss	<5%

Monitoring Checklist

Quarterly Review:

- Earnings vs. expectations (revenue growth >10%, EPS growth >15%)
- Scores segment pricing realization and volume trends
- Software platform ARR growth (target >15%)
- Share repurchase activity and pace
- Debt levels and interest coverage ratio
- Management guidance and competitive positioning
- Regulatory developments (CFPB, FHA, GSE mandates)

Exit Triggers

Condition	Action
Revenue growth decelerates below 5% for 2+ quarters	Reassess; consider reducing position
Interest coverage falls below 4.0x	Sell — solvency risk elevated
ROIC falls below 20% for 2+ years	Sell — competitive position deteriorating
Regulatory action materially limits pricing power	Reassess immediately; likely sell
VantageScore gains >20% market share in mortgage	Reassess — moat may be eroding
Forward return falls below 5% (price >\$3,500+)	Take profits; rotate to higher-return alternatives

Condition	Action
Better opportunity with 10+ point higher WP Score	Consider replacing position

FINAL RECOMMENDATION

RECOMMENDATION: BUY

Position Size: Standard Position

Entry Strategy: Market order at current levels (~\$1,283); consider scaling in on further weakness toward \$1,200 support level

Expected Outcome (10 Years)

Metric	This Position	HYSA (4.0%)	Outperformance
Total Return CAGR	13.6%	4.0%	+9.6%
\$100 Becomes	\$358	\$148	+\$210
Cumulative Return	258%	48%	+210%

Downside Protection Summary

- ✓ Bear case preserves capital: +2.5% CAGR
- ✗ Dividend provides income floor: No dividend — mitigated by ~4-5% buyback yield
- ✓ Balance sheet provides safety: Adequate — 6.8x interest coverage, Z-Score 12.98
- ✓ Monopoly moat provides competitive safety: De facto standard in U.S. credit scoring
- ✓ Current valuation provides margin of safety: 42% below 52-week high, 41% below base case fair value

Analyst Notes

Key Assumptions:

1. FICO maintains pricing power and continues mid-teens revenue growth. Sensitivity: If revenue growth slows to 5%, bear case applies — still capital-preserving.
2. Multiple does not compress below 25x forward EPS. Sensitivity: At 20x and 5% growth, 10-year return would be approximately -2% CAGR — only scenario with capital loss.
3. No material regulatory intervention limiting FICO Score pricing. Sensitivity: If pricing is capped, revenue growth moderates to 5-8%, shifting outcome toward bear case.

Limitations:

1. Negative shareholder equity limits traditional balance sheet analysis; alternative solvency metrics used.
2. No dividend creates absence of income floor during drawdowns.
3. Limited international comparable data for FICO's unique monopoly position.
4. CEO insider selling pattern requires ongoing monitoring.

Confidence Level: MEDIUM-HIGH — High confidence in the business quality and competitive moat durability. Moderate confidence in valuation given premium multiples even after correction. The combination of monopoly economics, exceptional profitability, and a 42% price correction creates a compelling asymmetric opportunity within

the wealth preservation mandate.



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