Moschovakis Capital

Fair Isaac Corporation

FICO

EQUITY RESEARCH REPORT

October 02, 2026

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FAIR ISAAC CORPORATION (FICO)

Report Date: 2026-10-02

Analyst: Moschovakis Capital Research

EXECUTIVE SUMMARY

Metric	Value
Recommendation	HOLD (reduced starter position acceptable only for non-mandate account
Current Price	$661.75 / €588.03
Fair Value (Base Case)	$850.00 / €755.56
Margin of Safety	+28.4%
Target Entry (if HOLD)	$620.00 / €551.11

Return Profile	Value
Dividend Yield	0.0%
Expected Dividend Growth	N/A
Expected Price Appreciation (Base Case)	11.7% CAGR
Total Expected Return (Base)	11.7% CAGR
Bear Case Total Return	0.2% CAGR
Bull Case Total Return	16.9% CAGR
Probability-Weighted Return	10.2% CAGR

Risk Assessment	Value
Wealth Preservation Score	64 / 100
Downside Protection Score	55 / 100
Quality Score	55 / 100
Risk Level	MODERATE
Probability of >50% Loss	~8%
Recession Profile	SENSITIVE

One-Line Thesis: FICO operates a tollbooth in U.S. consumer credit scoring with 50%+ operating margins and trades at 15.6x forward non-GAAP earnings after a steep drawdown, but $5.6 billion of debt against negative tangible equity and zero dividend leave the stock short of the strict wealth-preservation full BUY threshold.

INVESTMENT THESIS

Fair Isaac owns one of the few genuine pricing-power assets in U.S. financial infrastructure. Lenders, insurers, and government-sponsored enterprises treat the FICO Score as the default risk language for consumer credit. That position produces revenue that does not depend on FICO taking credit risk itself. Instead, FICO collects a toll each time the market uses its score. The Scores segment produced $458.9 million of revenue in fiscal Q3 2026, up 41% year over year, and within that, B2B scoring rose 49%. Mortgage origination scores, unit pricing, and mortgage origination volume did the heavy lifting. The Software segment is smaller and currently less impressive on reported revenue, up only 2% to $215.3 million in Q3, but platform software annual recurring revenue rose 62% and platform dollar-based net retention reached 136% in Q2. FICO raised fiscal 2026 revenue guidance to $2.53 billion, GAAP net income to $850 million, and non-GAAP EPS to $42.43. On the current price of $661.75, that non-GAAP EPS figure implies a forward P/E near 15.6x. The five-year average forward non-GAAP P/E is 43.7x, and the five-year average EV/EBITDA is 40.7x. The market has repriced FICO from roughly $990 to $1,000 per share in September 2026 data to today's $661.75. This re-rating does not reflect a broken income statement. LTM revenue is $2,394 million, up 24.1%, LTM EBITDA is $1,268 million, up 39.5%, and LTM net income is $815 million, up 28.8%.

The return case meets the inflation-plus-4% hurdle by a wide margin. A base case of roughly 9% non-GAAP EPS growth for ten years, followed by a 20x terminal multiple, produces a 2036 price target near $2,010 and an 11.7% CAGR from today's entry price. A bull case of 13% EPS growth and a 22x terminal multiple produces a 16.9% CAGR. Even a bear case that cuts EPS 30% in fiscal 2027, then grows the reduced base at only 4% for nine years, ends near $676. At a 16x terminal multiple, the bear-case ten-year CAGR is slightly positive at 0.2%. That is a rare configuration for a company with this much debt, but it holds only if the competitive threat from VantageScore and the FHFA "Lender Choice" model compresses growth without destroying the core tollbooth.

The downside is not remote. The tri-merge to bi-merge conversion could cut score volume by as much as one-third per mortgage application. The antitrust litigation in the mortgage market continues after the dismissal of all claims except Sherman Act Section 2 and companion state law claims. FHFA formally transitioned to a Lender Choice model, opening the door for VantageScore 4.0 at Fannie Mae and Freddie Mac. A direct license program and aggressive "transmission fees" have drawn scrutiny from lenders and regulators. The balance sheet adds pressure. Total debt stands at $5.6 billion against cash of $248.4 million. Tangible equity is negative because management has bought back stock and paid no dividend. Interest coverage of roughly 6.7x is adequate today, but a 30% revenue decline would compress the buffer.

That is why the recommendation stops at HOLD rather than a full BUY. The stated absolute hurdles do pass: bear-case ten-year total return is not negative, base-case return exceeds 7%, solvency is adequate rather than marginal, and the probability of a permanent loss above 50% sits below 10%. The Wealth Preservation Score, however, reaches only 64, below the 65 threshold for a standard BUY under this framework. The negative equity, the lack of a dividend, and the reliance on mortgage origination volume for the highest-margin revenue all subtract from the defensive profile. A pullback toward $620, or three to four quarters of debt reduction and VantageScore containment, would convert this into a full-position holding. Until then, cash still competes at a 4% yield with less balance-sheet risk. FICO is a quality franchise at a lower price than its own history justifies, but it is not yet a fortress.

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1. BUSINESS QUALITY ASSESSMENT

FICO operates two segments that share one competitive source: proprietary analytics embedded into lending and collections workflows. The Scores segment generates more than 60% of revenue and monetizes the FICO Score through major U.S. credit bureaus and the direct-to-consumer myFICO business. Lenders pay for access to the score because investors, regulators, and mortgage counterparties have made it the common standard. The Software segment sells decisioning, origination, fraud, customer management, and collections tools, increasingly through the FICO Platform. The platform shift is incomplete. Platform software annual recurring revenue grew 62% in Q3 fiscal 2026, but non-platform ARR declined 17%, leaving total Software revenue growth at only 2% for the quarter. Total Software dollar-based net retention was 109% in Q3, down from 136% platform-level retention reported in Q2. That mixture shows the transition from legacy license revenue to cloud-ARR is consuming reported growth even as the underlying recurring base improves.

The business quality is best measured by the margin structure, not by the Software revenue headline. For LTM ended June 30, 2026, gross margin reached 85.1%, EBITDA margin 53.0%, operating margin 52.1%, and net margin 34.1%. Gross margin has climbed from 74.7% in fiscal 2021 to 82.2% in fiscal 2025 and 85.1% in the latest twelve months. Operating margin has expanded from 31.4% in fiscal 2021 to 52.1% LTM. A company that converts half of every revenue dollar into operating income while growing revenue 24% year over year has a product the customer cannot easily replace. The quality model, however, is narrower than the corporate brand suggests. U.S. consumer lending and mortgage origination drive the profit center. When mortgage originations rise, B2B Scores revenue accelerates sharply. When originations fall, the segment becomes vulnerable even if the software business holds steady.

The moat has three layers. First, regulatory and institutional lock-in: Fannie Mae, Freddie Mac, and most securitization documents reference the FICO Score. Replacing that language is slow. Second, switching costs: every lender, credit bureau, and risk model has trained on FICO score behavior for decades. Third, scale in data: alternative score providers must prove equivalent predictive performance across cycles before lenders will absorb regulatory and counterparty risk. The FHFA Lender Choice model weakens the first layer but does not eliminate it. VantageScore 4.0 can now compete for conforming mortgages, but lenders still choose the score that investors and mortgage insurers accept. The direct license program, which offers FICO Score 10T alongside the Classic FICO Score at no extra fee, addresses that competitive pressure by improving predictive value without adding cost to the lender. More than 70 mortgage lenders now use FICO Score 10T, covering over $313 billion in annualized mortgage originations. That adoption is the main qualitative signal that the moat is being refreshed rather than surrendered.

Competitive durability is high, but the Software segment's slower reported growth introduces a timing risk. The market wants to see recurring revenue, not one-time license revenue. Management has accelerated the platform transition even though it suppresses near-term Software revenue. The result is a high-margin, capital-light business with predictable recurring Scores revenue and a software business in transition. For preservation purposes, the primary moat is strong, but the secondary segment still needs to prove the platform can replace legacy revenue without an ARR gap.

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2. FINANCIAL FORTRESS ANALYSIS

The balance sheet is the weakest part of the FICO preservation case. As of the latest available data, total cash stood at $248.44 million and total debt at $5.6 billion. Net debt is roughly $5.35 billion. Against LTM EBITDA of $1.268 billion, that is approximately 4.2x net debt-to-EBITDA; stockanalysis reports Debt/EBITDA at 4.39x and Debt/FCF at 5.62x. Stockholders' equity is negative because years of share repurchases have exceeded retained capital. AlphaQuery reports debt-to-equity of -1.75 and ROE of -37.34% for fiscal 2025, while Simply

Wall St rates financial health 1 out of 6 and warns debt is not well covered by operating cash flow. Those are not normal signs for a preservation-grade balance sheet.

The income statement, however, carries the debt without current strain. Interest coverage of 6.69x means LTM operating income of $1.247 billion covers interest expense approximately 6.7 times. That is above the 5.0x minimum and below the 8.0x preferred level. Current ratio is 1.18 and quick ratio 1.13 in the stockanalysis snapshot, though the AlphaQuery fiscal 2025 figure is 0.83. StockTitan flags short-term liquidity as needing monitoring. Cash as a percentage of total debt is under 5%, well below the 20% preferred threshold. Free cash flow is real, not an accounting artifact. Fiscal 2025 FCF was $739.4 million, a 37.1% FCF margin on $1,991 million of revenue. Q3 fiscal 2026 FCF was $370.3 million, up from $276.2 million a year earlier. First-half fiscal 2026 operating cash flow was $397.4 million. Five-year average free cash flow margin is 35.8%, with expansion of 7.2 percentage points across the period.

A 30% revenue decline stress test matters more than the current ratios. If fiscal 2027 revenue fell 30% from fiscal 2026 guidance of $2.53 billion, revenue would be near $1.77 billion. At a still-elevated gross margin of 78% to 80%, gross profit would land around $1.4 billion. Operating expenses have run near $790 million against $2.04 billion of LTM gross profit, so the resulting operating income might compress to $500 million to $600 million. Interest expense on $5.6 billion of debt at 3% to 5% would run $170 million to $280 million. FICO would remain solvent and could continue servicing debt without a dividend cut, because it pays no dividend. Buybacks would stop, and the company would likely retain cash rather than draw incremental debt. The debt maturity schedule is not disclosed in the research packet, so the cliff risk cannot be quantified precisely; that is a monitoring item.

The solvency assessment is ADEQUATE, not FORTRESS, and not MARGINAL. The negative tangible equity prevents a FORTRESS designation. The stable, high-margin FCF prevents MARGINAL. A fortress would be debt-free or net cash with stronger short-term liquidity. FICO relies on earnings power rather than balance-sheet liquidity to absorb a downturn. That works for a tollbooth until the competitive threat arrives in the same year as a mortgage downturn.

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3. DIVIDEND ANALYSIS

FICO pays no cash dividend, so no dividend sustainability analysis applies. Capital returns flow through share repurchases.

The buyback context replaces part of the usual income cushion. FICO launched a $2 billion repurchase authorization on June 8, 2026, and immediately deployed $1.5 billion into an accelerated share repurchase with Wells Fargo, buying back roughly 1.06 million shares before fiscal year-end. Shares outstanding fell 4.5% year over year and 4.4% quarter over quarter to approximately 21.6 million. That is material, but a repurchase is not a contractual cash distribution. For a preservation mandate, the absence of a dividend removes both the return floor and the discipline signal that a cash payout provides.

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4. VALUATION ANALYSIS

The current price of $661.75 with 21.6 million shares outstanding implies a market capitalization of $14.29 billion. Adding net debt of $5.35 billion gives an enterprise value of $19.64 billion. The valuation exercise starts with LTM financials: revenue $2,394 million, EBITDA $1,268 million, operating income $1,247 million, net income $815

million, and EPS $34.81.

Current multiples are far below FICO's own five-year history. The five-year average forward non-GAAP P/E is 43.7x. The current forward non-GAAP P/E, using fiscal 2026 guidance of $42.43, is 15.6x. The five-year average EV/EBITDA is 40.7x. The current EV/EBITDA, using LTM EBITDA of $1.268 billion, is 15.5x. The five-year average EV/EBIT is 31.6x. The current EV/EBIT is 15.7x. The five-year average price/cash flow is 46.5x. On trailing cash flow, FICO now trades near 13x. The five-year average P/S is 16.6x. Current P/S is 6.0x. FICO's own Trefis history shows P/E of 89.2x in fiscal 2024, 61.0x in fiscal 2025, and 27.9x on September 15, 2026. Today's price compresses that again.

The gap between P/S and earnings multiples reflects FICO's margin. Against the IT sector median, FICO still trades at a premium on P/S, but the premium reflects 85% gross margin and 53% EBITDA margin. Sector median P/S is 3.58 and FICO is 6.0x, so the sales multiple is still high. Sector median EV/EBITDA is 18.36x and FICO is 15.5x, a discount. Sector median forward non-GAAP P/E is 22.18x and FICO is 15.6x, also a discount. Sector median EV/EBIT is 18.07x and FICO is 15.7x. The market is paying more per dollar of sales for FICO than for the average technology company but less per dollar of profit. For a high-margin asset, the profit multiple is the relevant yardstick.

A base fair value of $850 comes from two independent routes. Applying a conservative 20x multiple to fiscal 2026 non-GAAP EPS of $42.43 yields $848.60. The second route applies 17.5x EV/EBITDA to estimated fiscal 2026 EBITDA near $1.35 billion, producing an enterprise value of $23.63 billion; subtracting $5.35 billion of net debt leaves $18.28 billion of equity, or $846 per share on 21.6 million shares. Both point to the same $850 area. The margin of safety against the current price is 28.4%. That is comfortable by ordinary standards but not enough to overcome the balance-sheet failings under this framework.

The valuation is no longer excessive. The low price already assumes some competitive loss and slower Software growth. What it does not assume is the full bear combination: VantageScore share gains plus a mortgage recession plus a debt-service squeeze. That combination is lower probability, but it is exactly the scenario that preservation analysis must quantify before upgrading from HOLD to BUY.

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5. SCENARIO ANALYSIS

The bear case starts from fiscal 2026 non-GAAP EPS of $42.43 and cuts it 30% to $29.70 in fiscal 2027. That assumes the tri-merge to bi-merge change reduces Score volume per mortgage application, VantageScore takes share at Fannie Mae and Freddie Mac, and mortgage originations weaken. Revenue would fall in both segments, with Scores revenue down more than 20% at the trough. Operating leverage would amplify the drop because many software and corporate costs are fixed. Interest expense remains a fixed claim of $170 million to $280 million. The terminal multiple in the bear case is 16x, near the low end of FICO's historical post-2015 range. From the reduced EPS base, a 4% recovery over nine years produces 2036 EPS near $42 and a 2036 price near $676. The ten-year CAGR from $661.75 is 0.2%. That is a positive nominal return but materially below inflation and below the 4% savings yield. The near-term drawdown could be worse than the ten-year figure suggests: a 13x multiple on trough EPS of $29.70 would place the stock near $386, a 42% decline from the current price. That near-term downside is why the score falls below 65.

The base case assumes FICO retains pricing power, the direct license program stabilizes mortgage volumes, and platform ARR replaces legacy Software revenue within three years. Revenue grows near 12% annually, operating margin holds near 50%, and non-GAAP EPS grows 9% annually for ten years. From $42.43 in fiscal

2026, EPS reaches $100.40 in 2036. A 20x terminal multiple gives a $2,008 price target and an 11.7% CAGR. No dividend contributes. The base case return clears the 7% hurdle and exceeds the 4% savings alternative by almost 8 percentage points per year.

The bull case requires two things to go right at once. First, FICO Score 10T adoption accelerates beyond $313 billion in annualized originations and the direct license program converts price objections into sustained unit-volume share. Second, the Software platform shift completes, with non-platform ARR decline bottoming and total Software revenue growing above 10% by fiscal 2028. In the bull case, EPS grows 13% annually for ten years to $144, and the terminal multiple expands to 22x because the revenue mix tilts toward recurring software. The 2036 price target is $3,169 and the CAGR is 16.9%.

Weighting bear at 25%, base at 50%, and bull at 25% gives a probability-weighted return of 10.2% CAGR. The distribution skews positive, but the bear-case near-term path remains too painful for a full preservation position.

Scenario	Weight	2036 Price Target	Total CAGR	Contribution
Bear	25%	$676	0.2%	0.1%
Base	50%	$2,008	11.7%	5.9%
Bull	25%	$3,169	16.9%	4.2%
Expected			**10.2%**	

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6. RISK ASSESSMENT

The largest business risk is the formal entry of VantageScore into conforming mortgages. The FHFA Lender Choice model lets Fannie Mae and Freddie Mac accept VantageScore 4.0, which Freddy Mac began accepting on April 23, 2026, with Fannie Mae following. That cracks open FICO's highest-margin territory. The shift does not yet appear in reported numbers: in fiscal Q2 2026, revenue rose 39%, B2B Scores revenue rose 72%, and in Q3 B2B scoring rose 49%. The market has nevertheless repriced the stock aggressively. If VantageScore converts from availability to lender adoption at scale, Score volume and pricing would contract even without a recession.

The tri-merge to bi-merge transition is the most concrete structural volume risk. A move from three credit scores to two per mortgage application could cut FICO score volume by up to one-third in that channel. That change would reduce revenue growth before the direct license program can offset it with higher unit pricing or broader adoption of Score 10T.

The antitrust litigation represents a tail risk. The court dismissed all claims with prejudice except the Sherman Act Section 2 claim and companion state law claims against FICO. Discovery is proceeding, and FICO says it will defend vigorously. A loss or a consent decree that caps mortgage score prices would damage both revenue and the market's willingness to assign a tollbooth multiple.

Regulatory and data risks remain. FICO's own forward-looking language cites regulatory changes applicable to the use or costs of consumer credit and other data. The 2024 10-K warns that increased regulatory focus on mortgage closing costs may limit FICO's ability to implement mortgage score price changes. Data-privacy rules, including GDPR and evolving U.S. state laws, could limit the data sources on which Scores depends. Cybersecurity risk appears in every filing, with the added warning that cloud migration expands the attack

surface. A breach involving sensitive consumer credit data would produce both financial and reputational loss.

The balance sheet is a risk multiplier. Net debt of $5.35 billion and negative tangible equity leave little room for a sustained earnings decline. Interest coverage of 6.7x is adequate, but it would fall below 4x in a 30% revenue decline scenario. The company has no dividend cushion, so a preservation investor receives no cash during a drawdown.

The Software segment introduces a separate execution risk. Reported Software revenue grew only 2% in Q3 fiscal 2026, while non-platform ARR declined 17%. If the platform transition stalls or total Software DBNR stays near 109% instead of the platform-level 136%, the segment will subtract from consolidated growth. Revenue concentration in U.S. mortgage and consumer credit compounds all of these risks. The probability of a sustained loss above 50% from the current price is estimated near 8%. A permanent loss of that size would require either a catastrophic litigation outcome or the combination of VantageScore adoption, bi-merge volume loss, and a mortgage downturn. That is possible but not the base expectation. A 10% threshold is not breached.

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7. MANAGEMENT & GOVERNANCE

The research packet does not provide a full management quality assessment, so this section relies on limited data and filing signatures. Steven P. Weber serves as Executive Vice President and Chief Financial Officer and signed the July 29, 2026 8-K. Michael S. Leonard is Chief Accounting Officer and Vice President, and received RSUs vesting over four years. The packet does not provide the CEO's name, tenure, compensation, or ownership. Insider ownership is 3.14%, and institutional ownership is reported at 100.77%, a figure that exceeds 100% and is unresolved in the data.

Governance signals are mixed. On the positive side, there is no accounting restatement, no revenue recognition controversy in the packet, and no explicit management red flag beyond the Software segment's slow reported growth. The company has a long history through the HNC Software acquisition in 2002 and has executed a multi-year shift toward the FICO Platform. The margin expansion from 31.4% operating margin in fiscal 2021 to 52.1% LTM shows effective cost discipline and pricing execution.

Capital allocation is aggressive. FICO has borrowed to repurchase shares. Total debt is $5.6 billion, tangible equity is negative, and the company pays no dividend. The August 2025 through October 2025 Form 4 and Form 144 filings by William J. Lansing show insider activity, and the $7.0 million option exercise by an EVP is constructive but small. The June 2026 $2 billion buyback authorization and $1.5 billion accelerated repurchase announced before fiscal year-end reduced the share count, but they also increased leverage. The direct license program shows management is responding to competitive pressure rather than defending the old pricing model blindly.

I rate management quality as GOOD with limited visibility. Capital allocation is ACCEPTABLE for a growth asset but not preservation-grade. Borrowing to repurchase shares at lower prices is defensible, but it creates an asymmetric risk in a downturn. A preservation investor wants management to keep the balance sheet fortress, and this management has not.

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8. PEER COMPARISON

The packet provides FICO's IT sector median comparisons and selected tollbooth comparables. The table below uses the current FICO price of $661.75; peer-specific company data is not available in the packet, so the comparison uses sector medians and qualitative tollbooth analogues.

Metric	FICO (current)	IT Sector Median	FICO 5Y Average	Preservation Read
Fwd Non-GAAP P/E	15.6x	22.18x	43.7x	Discount to history
EV/EBITDA	15.5x	18.36x	40.7x	Discount to history
EV/EBIT	15.7x	18.07x	31.6x	Discount
P/S (LTM)	6.0x	3.58x	16.6x	Premium on sales
Price/Cash Flow	~13x	18.57x	46.5x	Discount

The table shows the tension. FICO still trades at a premium to the sector on sales because its 85% gross margin and 53% EBITDA margin convert a lot of sales into profit. On profit, cash flow, and EBITDA, FICO trades below both the sector median and its own five-year average. The five-year average forward non-GAAP P/E of 43.7x was itself inflated by the 2024 peak; the more stable 2022-2025 average is still far above today's level.

Qualitative tollbooth comparables include S&P Global, Moody's, MSCI, CME Group, Visa, and Mastercard. Those companies share FICO's pricing power and regulatory embed but generally carry lower balance-sheet leverage and more diversified revenue. FICO's current EV/EBITDA of 15.5x is low for that group, but its net debt and negative tangible equity distinguish it from the safest tollbooths. The premium on P/S relative to the IT sector is not a reason to avoid the stock. The discount on profit multiples is real. For a preservation peer, FICO ranks below Moody's and MSCI on balance sheet safety but above most cyclical software names on durability.

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9. KEY METRICS SUMMARY

Metric	Value
Current Price	$661.75 / €588.03
Shares Outstanding	21.6M
Market Capitalization	$14.29B
Net Debt	$5.35B
Enterprise Value	$19.64B
LTM Revenue	$2,394M
LTM EBITDA	$1,268M
LTM Operating Income	$1,247M
LTM Net Income	$815M
LTM EPS	$34.81
LTM Gross Margin	85.1%

Metric	Value
LTM EBITDA Margin	53.0%
LTM Operating Margin	52.1%
FY2026E Revenue Guidance	$2.53B
FY2026E GAAP EPS Guidance	$36.86
FY2026E Non-GAAP EPS Guidance	$42.43
FY2025 FCF	$739.4M
Q3 FY2026 FCF	$370.3M
Total Debt	$5.6B
Cash	$248.4M
Interest Coverage	6.69x
Debt/EBITDA	4.39x
Dividend Yield	0.0%
FY2026 Q3 Scores Revenue	$458.9M (+41%)
FY2026 Q3 Software Revenue	$215.3M (+2%)
Platform ARR Growth (Q3)	+62%
Non-Platform ARR Growth (Q3)	-17%
Total Software DBNR (Q3)	109%
Platform DBNR (Q2)	136%
FICO Score 10T Adoption	70+ lenders, $313B+ originations
5Y Avg Fwd Non-GAAP P/E	43.7x
Current Fwd Non-GAAP P/E	15.6x
5Y Avg EV/EBITDA	40.7x
Current EV/EBITDA	15.5x

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10. MONITORING CHECKLIST

Item	Frequency	Trigger for Action
FICO B2B Scores revenue growth	Quarterly	Below 20% sustained for two quarters
Platform ARR growth	Quarterly	Below 40% or total Software DBNR below 105%
Non-platform ARR decline	Quarterly	Decline below -20%

Item	Frequency	Trigger for Action
Debt/EBITDA	Quarterly	Above 5.0x
Interest coverage	Quarterly	Below 4.5x
Free cash flow margin	Quarterly	Below 35%
VantageScore adoption announcements	Event-driven	Fannie/Freddie volume share disclosures
FHFA regulatory changes	Event-driven	New pricing or tri-merge/bi-merge rule
Antitrust litigation status	Event-driven	Adverse ruling or consent decree
Mortgage origination data	Monthly/quarterly	Sustained 25%+ decline
Share repurchase activity	Quarterly	Buybacks paused or funded with debt expansion
Q4 FY2026 results	November 4, 2026	Revenue vs consensus $684.7M; EPS vs consensus

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11. MARKET EXPECTATIONS & CONSENSUS

The current price of $661.75 prices FICO as a fading growth asset. At 15.6x forward non-GAAP earnings, the market is assigning a lower multiple than the IT sector median of 22.18x and less than half FICO's five-year average. The implied growth expectation is low. If the market required a 10% annual return and FICO earned $42.43 per share in fiscal 2026 with no dividend, the current price would reflect roughly flat long-run EPS growth under a 16x exit multiple. That is difficult to reconcile with fiscal 2026 guidance of 22% non-GAAP EPS growth to $42.43 and sell-side next-12-month revenue growth estimates of 19.2%. Either the market expects the VantageScore threat to destroy that growth quickly, or the market is mispricing the resilience of the Scores segment.

The consensus bull case says FICO's EPS trajectory has accelerated despite the VantageScore rollout and the market has not yet repriced the stock. Normalized EPS of $12.50 in Q2 fiscal 2026 put the company on pace for non-GAAP EPS near $40 for the year while the stock sat nearly 43% below its 52-week high. The consensus bear case cites tighter data-privacy rules, DeFi disruption to credit models, and regulatory overhang. The most concrete bear event is already visible: Q3 fiscal 2026 revenue missed consensus estimates by 1.5%, $674.2 million versus $684.7 million, even though adjusted EPS beat by 3.4%.

Analyst ratings are positive but not unanimous. MarketBeat reports 11 Buy, 5 Hold, and 0 Sell, with a consensus target of $1,553.69. TIKR reports 11 Buy, 5 Outperform, 4 Hold, and 1 Sell, with a mean target of $1,535. The Street high is $2,400, and at least one analyst raised the target from $2,000 to $2,400 after the direct license program announcement. Against the current $661.75 price, those targets imply large upside, but the targets were set at higher market prices and have been falling over time. The one-year price-target consensus is unreliable as a valuation anchor because the research packet contains conflicting current prices. The authoritative current price is $661.75.

Short interest and days to cover are not provided in the research packet. PEG is reported at 0.72, and at the current forward P/E of 15.6x against 22.5% expected EPS growth, the forward PEG is near 0.69. Beta is not available in the supplied data.

What would validate the consensus is a clean Q4 fiscal 2026 report on November 4: revenue above $684.7 million, non-GAAP EPS above the $10.74 consensus, Scores revenue growth above 30%, and platform ARR growth above 50% without a further collapse in non-platform ARR. What would disappoint is another revenue miss, B2B Scores growth decelerating below 30%, or guidance for fiscal 2027 that shows mortgage pricing gains no longer offsetting volume pressure.

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12. KEY BUSINESS DRIVERS

Driver 1: B2B Scores revenue growth

Why it matters: B2B Scores is the highest-margin FICO revenue and the clearest signal of pricing power and mortgage origination volume.

Current level: +49% YoY in Q3 fiscal 2026; +72% in Q2.

Bull threshold: growth above 20% sustained.

Bear threshold: growth below 10% or negative over two consecutive quarters.

Next data point: Q4 fiscal 2026 earnings on November 4, 2026.

Driver 2: FICO Score 10T and direct license program adoption

Why it matters: Score 10T is the competitive response to VantageScore; adoption determines whether FICO retains mortgage share under FHFA Lender Choice.

Current level: 70+ mortgage lenders, over $313 billion annualized originations, offered alongside Classic FICO at no extra fee.

Bull threshold: direct license adoption doubles originations covered within 24 months.

Bear threshold: Fannie Mae or Freddie Mac discloses material VantageScore volume share gains.

Next data point: lender announcements and mortgage origination disclosures.

Driver 3: Platform software ARR and net retention

Why it matters: The platform shift determines whether Software can grow reported revenue after legacy license revenue winds down.

Current level: platform ARR +62%, non-platform ARR -17%, total Software DBNR 109% in Q3; platform DBNR 136% in Q2.

Bull threshold: platform ARR growth stays above 40% and total Software revenue returns to high-single-digit growth by fiscal 2028.

Bear threshold: platform ARR growth falls below 30% or total Software DBNR drops below 100%.

Next data point: quarterly 10-Q and earnings commentary.

Driver 4: Free cash flow margin and debt reduction

Why it matters: Negative tangible equity makes FCF the only buffer against the $5.6 billion debt load.

Current level: FY2025 FCF $739.4 million, 37.1% margin; Q3 fiscal 2026 FCF $370.3 million.

Bull threshold: FCF margin above 45% and net debt below $4.5 billion within three years.

Bear threshold: FCF margin below 35% or net debt/EBITDA above 5.0x.

Next data point: quarterly cash flow statement.

Driver 5: Mortgage market conditions and regulatory pricing action

Why it matters: Mortgage origination volume and mortgage score pricing directly drive the Scores segment.

Current level: mortgage origination score pricing contributed to B2B growth; regulatory focus on closing costs is active.

Bull threshold: origination volumes stabilize and no price cap emerges.

Bear threshold: a bi-merge rule or FHFA price restriction reduces score volume by more than 20%.

Next data point: FHFA and Fannie/Freddie policy announcements; MBA application data.

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13. PROXY TRACKERS & LEADING INDICATORS

Proxy	Ticker/Symbol	Relationship	Signal
Equifax	EFX	Credit bureau that distributes FICO Scores; mortgage origination volume	Bullish if EFX mortgage-related revenue
TransUnion	TRU	Second U.S. credit bureau; market share and mortgage-related revenue	Bullish if TRU mortgage trends confirm Scores
10-Year U.S. Treasury Yield	US10Y	Mortgage rates drive origination volume; the 10-year yield falls	Bullish if the 10-year yield falls and origina
S&P Global	SPGI	Tollbooth financial-infrastructure peer; valuation and MSCI affect FICO's	Bullish if SPGI and MSCI hold premiums

Monitoring rule: If Equifax or TransUnion guides mortgage origination volumes down more than 20% in a quarter, or if FHFA announces a bi-merge rule, re-evaluate the FICO thesis within five days.

EXIT TRIGGERS

- B2B Scores revenue growth falls below 10% for two consecutive quarters: reduce or sell.
- FHFA or Fannie/Freddie announces a formal bi-merge rule or price cap on mortgage scores: sell or re-underwrite bear case.
- Interest coverage falls below 4.5x or net debt/EBITDA exceeds 5.0x: reduce.
- Total Software dollar-based net retention falls below 100% and platform ARR growth falls below 30%: reduce.
- Antitrust litigation results in an adverse ruling, price cap, or consent decree: sell.
- Free cash flow margin falls below 35% while buybacks continue: reduce.
- Price reaches $1,000 to $1,100 (forward non-GAAP P/E near 24x to 26x) without a corresponding improvement in the VantageScore threat: trim.
- Q4 fiscal 2026 revenue misses consensus by more than 5% or guidance for fiscal 2027 disappoints: re-evaluate within 48 hours.

FINAL RECOMMENDATION

RECOMMENDATION: HOLD

Fair Isaac is a high-quality tollbooth at a valuation that no longer reflects its five-year history. The current price of $661.75 assigns a 15.6x forward non-GAAP P/E, a 15.5x EV/EBITDA, and a 28.4% margin of safety to a base fair value of $850. The base-case ten-year return of 11.7% clears the inflation-plus-4% hurdle, and the probability-weighted return of 10.2% is adequate. The problem is the downside structure. The bear case is positive over ten years only because the terminal multiple holds at 16x on a reduced EPS base; the near-term drawdown path could exceed 40%. FICO carries $5.6 billion of debt against negative tangible equity, pays no dividend, and faces a genuine opening of its conforming mortgage franchise to VantageScore. The Wealth Preservation Score of 64 sits one point below the full BUY threshold. That one point is not a rounding error. It reflects the missing balance-sheet cushion and the missing income floor. A retirement of net debt toward $4 billion, two clean quarters of B2B Scores growth above 30%, and platform ARR above 50% would convert this name into a full-position preservation holding. I would place FICO on the watchlist and add below $620.

ANALYST NOTES

Key Assumptions

- Fiscal 2026 non-GAAP EPS of $42.43 based on company guidance.
- 21.6 million shares outstanding and $5.35 billion net debt.
- Base case: 9% non-GAAP EPS CAGR, 20x terminal multiple.
- Bear case: 30% EPS decline in fiscal 2027, 4% recovery, 16x terminal multiple.
- Bull case: 13% EPS CAGR, 22x terminal multiple.
- No dividend; capital returns only through repurchases.
- USD/EUR conversion at 0.8887 for display purposes.

Limitations

- The research packet does not include complete management biographies, insider compensation details, debt maturity schedule, short interest, beta, or segment-level geography.
- FICO price data in the supplied packet is internally inconsistent; this report uses only the authoritative current price of $661.75 / €588.03.
- Full cash-flow history for fiscal 2021-2024 is unavailable; free cash flow analysis is based on fiscal 2025 and fiscal 2026 quarterly data.
- Direct peer financial data is absent; sector medians and qualitative tollbooth comparables substitute.

Confidence Level: MEDIUM

The medium confidence reflects a high-quality franchise with an attractive valuation offset by an impaired balance sheet and an unresolved competitive overhang. The range of plausible outcomes is wider than a preservation mandate typically accepts, even though the base return is strong. The next earnings report on November 4, 2026, should narrow the uncertainty: watch revenue against consensus, B2B Scores growth, platform ARR, and any fiscal 2027 guidance.

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Revolut	Multi-currency banking and FX
Interactive Brokers	Institutional-grade brokerage
Vantage	MT4/MT5 execution
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