

An aerial photograph of a dense city skyline at dusk or dawn. The sky is a mix of grey and light blue. The city below is filled with numerous skyscrapers and smaller buildings, many of which have their lights on. A prominent multi-lane highway runs vertically through the center of the image, with traffic visible. The overall tone is professional and urban.

FICO™

NYSE: FICO

Current Price: US\$1,952

Target Price: US\$2,550

(31% Upside)

A Resilient Investment Amidst Headwinds Yet Bullish in Recovery

Buy: US\$2,550 (31% Upside)

We initiate coverage on Fair Isaac Corporation (FICO) with a **Buy** recommendation at a target price of US\$2,550, representing an upside of 31% based on the last closing price of US\$1,952 as of the 25th of April 2025. We derived our target price performing a DCF analysis using an NTM EV/EBITDA exit multiple based on FICO’s historical median.

Investment Summary

Thesis 1: FICO’s Economic Moat – An Enabler of Strategic Resilience and Catalyst for Strong Rebounds

FICO holds a dominant 90% share in the credit scoring market, supported by industry dependence and resistance to change—reinforcing its pricing power and investment defensibility amidst headwinds. While concerns exist around the FHFA’s push for VantageScore, the mandate has been delayed, lacks industry support, and is now deprioritised under new leadership. As such, we expect FICO to maintain its market share and drive growth through effective price increases.

Thesis 2: FICO’s Robust Software Business Poises The Firm For Revenue and Margin Expansion

Over the past decade, FICO has consolidated its software services onto the unified FICO Platform. Operating under a “Land and Expand” model, FICO continues to attract and retain clients with zero churn, well below industry median. Strong industry tailwinds and superior competitive positioning support its growth outlook. With management now prioritising long-term growth over short-term margins, we expect sustainable expansion and improved margins driven by scalable, repeatable software solutions.

Thesis 3: FICO’s Cornered Resource for Long-term Success: Exceptional Leadership

FICO’s transformation and long-term success are largely driven by CEO William Lansing, who since 2012 has leveraged pricing power, reduced bureau reliance, and launched consumer-focused initiatives, boosting market share from 30% to 90%. He also led the shift to a scalable software model. Under his leadership, FICO has remained lean, consistently outperformed expectations, and delivered strong returns on reinvested capital. Lansing’s alignment with shareholders and focus on “quality” revenue reinforce our confidence in FICO’s outlook.

Investment Risks

FICO faces key risks, including pricing challenges amid industry pushback (**B1**), the potential underperformance of its Software business (**B2**), and the cyclical nature of its mortgage market revenue (**V1**). To mitigate these, FICO defends its pricing strategy through market leadership alongside deep industry reliance (**B1 Mitigation**) and accelerates software adoption via strategic partnerships (**B2 Mitigation**). These actions position FICO to manage risks while seizing growth opportunities during favourable market conditions. Finally, we acknowledge a valuation risk (**V1**), with the mortgage market low but potentially due for a significant upswing, boosting upside potential.

Analysts

Daanvir Singh Narula	Lead Analyst
Jasmine Sng Hui Min	Analyst
Cheng Jun Wei	Analyst
Terran Tan Wee Kiat	Analyst
Lucas Daniel Francis	Analyst

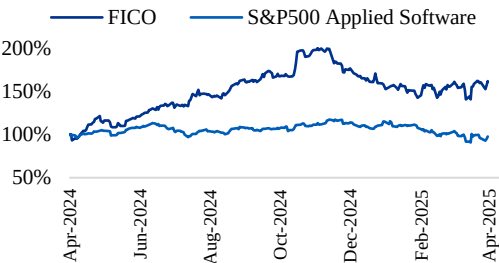
Basic Company Information

Ticker	FICO
Stock Exchange	NYSE
Sector	Application Software
Current Price (US\$)	1,952
Target Price (US\$)	2,550
52-Week Trading Price (US\$)	1,106 - 2,403
Market Capitalisation (US\$mn)	45,733
Shares Outstanding (mn)	24

Key Management

William J. Lansing	CEO
Steven P. Weber	Executive VP & CFO
Michael S. Leonard	VP & CAO
Amir Hermelin	VP & CTO
Thomas A. Bowers	VP Corporate Strategy

FICO 1Y Price Performance VS S&P500 Applied Software

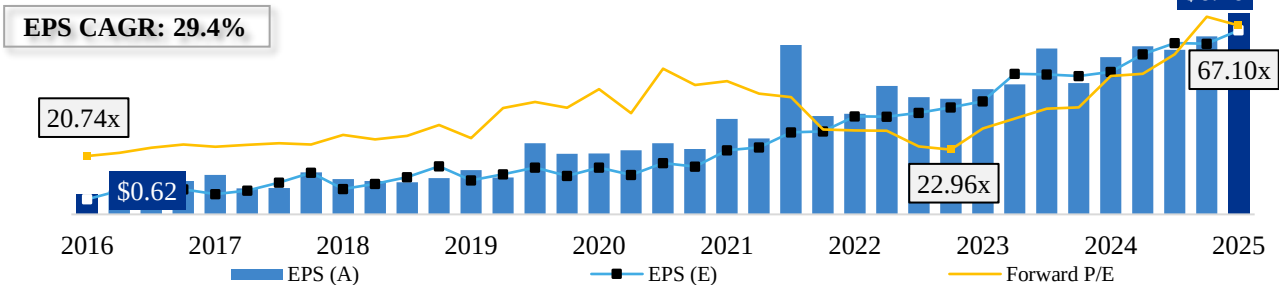


Source: S&P Capital IQ

	2022A	2023A	2024A	2025F	2026F	2027F	2028F	2029F
Revenue Growth	4.6%	9.9%	13.5%	23.9%	16.8%	15.5%	14.2%	4.9%
Gross Profit Margin	78.1%	79.4%	79.7%	79.1%	79.5%	79.8%	79.9%	80.0%
EBIT Margin	39.4%	42.3%	42.7%	52.7%	55.9%	58.4%	59.1%	59.5%
Net Income Margin	27.1%	28.4%	29.9%	36.0%	38.3%	43.7%	43.9%	46.1%
Free Cash Flow (US\$mn)	405	446	563	863	1,091	1,367	1,576	1,748

FICO: A Quality Compounder Consistently Surpassing Expectations

Figure 1.1: FICO Quarterly Historical EPS and Forward P/E (See Appendix A for Share Price Analysis)



Source: S&P Capital IQ

Business Overview

Business Description

Founded in 1956, FICO is a leading provider of applied analytics, offering advanced software and analytics solutions to businesses, governments, and individuals worldwide. Headquartered in the US, FICO operates across 80 countries (Fig 1.3), with a diverse workforce of 3,586 employees spread across 25 other countries. As of FY2024, FICO serves 75 of the largest financial institutions and banks in the US, over 600 insurers, all of the top 10 companies on the 2024 Fortune 500 list, and more than 200 government agencies. FICO also generated 92% of its revenues from the financial services sector, with 45% of its revenue being derived from the three major credit bureaus. FICO operates through two segments: (1) Scores and (2) Software (Fig 1.2).

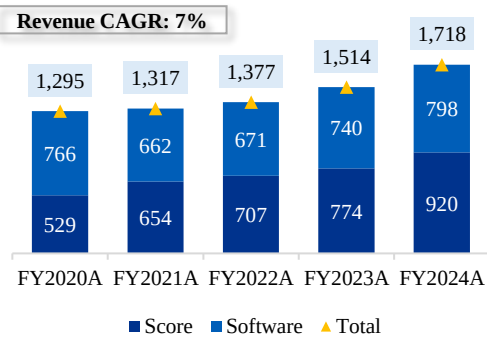
Business Segment 1: Scores

The Scores segment centres on FICO’s flagship offering, the FICO Score—a personal credit score that synthesises historical data to assess an individual’s creditworthiness. Operating primarily on a B2B basis, FICO serves almost all major banks, credit card issuers, mortgage lenders, and auto loan providers in the United States, partnering with the three main credit bureaus (Experian, TransUnion, and Equifax) which collect and maintain the underlying credit data used to deliver FICO Scores to institutional clients. FICO also engages in B2C services, offering the FICO Score directly to consumers through its website and indirectly via authorised distribution partners. The value proposition of the segment lies in improved decision-making: lenders are better positioned to manage credit risk without expending resources for in-house evaluation, while consumers benefit from enhanced understanding of their credit profile and how to improve it. Revenue is recognised through royalty-based fees from B2B clients upon request of the FICO Score, and through fixed-price, subscription-based fees in the B2C channel.

Business Segment 2: Software

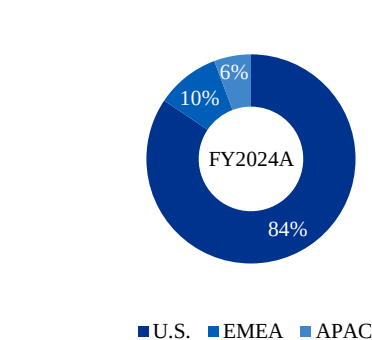
The Software segment focuses on B2B services, offering pre-configured analytic and decision management solutions tailored to specific business needs or processes, including account origination, customer management, customer engagement, fraud detection, marketing, and related professional services. It supports the delivery of stand-alone analytic and decisioning software alongside the FICO Platform. Over the past decade, FICO has been working towards integrating all services onto a unified platform, with the aim of providing a comprehensive, one-stop solution—though this goal has not yet been fully realised. Solutions can be deployed either on-premises or via third-party cloud providers. The segment’s value proposition lies in enabling clients to automate and improve the connectivity of decision-making across their organisations. Revenue is primarily recognised through multi-year subscription agreements, with additional unpriced, usage-based fees also accounted for.

Figure 1.2: FICO Revenue by Segments (US\$m)



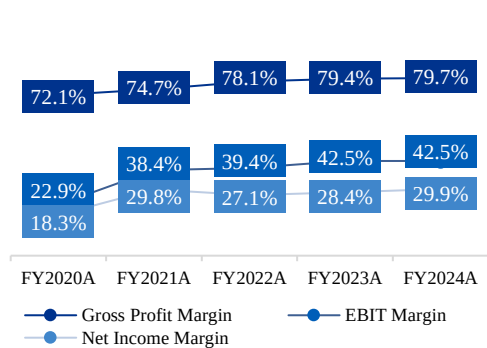
Source: Company Filings

Figure 1.3: Revenue Mix by Geography (%)



Source: Company Filings

Figure 1.4: FICO Profitability Margins



Source: Company Filings

Key Cost Drivers

FICO’s key cost drivers span its core operational areas, reflecting the company’s reliance on skilled personnel and advanced technology (Fig 1.5). FICO’s COGS is primarily composed of salaries, incentives, and benefits for employees directly involved in delivering software products, operating the SaaS infrastructure, and providing implementation, support, and consulting services. This category also includes overhead and facilities expenses, data centre costs, software royalty fees, credit bureau data and processing services, third-party hosting fees, travel, and outside service providers. R&D expenses are largely driven by personnel and associated overhead costs related to the creation of new products and services, including the development of mathematical and statistical models and new versions of software. SG&A expenses are principally made up of employee salaries, commissions, incentives, and benefits, along with travel, corporate overhead, marketing and promotional costs, legal expenses, and business development efforts.

Industry Overview

Industry 1: U.S. Consumer Lending

The U.S. consumer lending industry encompasses consumer credit and mortgage/housing. Consumer credit can be further expanded to a broad range of lending markets, including automotive finance, mortgages, student loans, credit card issuance, and other forms of personal credit, all of which play a role in supporting consumer spending. With current outstanding balances valued at US\$18.3tn, the U.S. consumer lending industry is projected to grow to US\$19.0tn by 2029, reflecting a CAGR of 0.75%. Over time, the sector has demonstrated a strong recovery, marked by a steady rise in annual debt repayments. This resilience is further supported by positive consumer sentiment, driven by growing confidence in personal financial outlooks and a continued willingness to borrow. Key overarching determinants of the industry’s performance include interest rates, employment, credit availability and accessibility, and consumer financial health.

Industry 1: Industry Trends in U.S. Consumer Lending

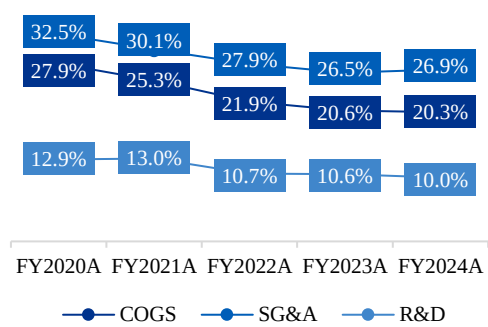
(i) Interest Rate Status: A Bleak Short-Term Outlook Amidst Macroeconomic Headwinds – Negative

As of May 2025, interest rates remain within the Federal Reserve’s benchmark range of 4.25% to 4.50%, following a series of rate cuts implemented in late 2024. The Fed continues to adopt a cautious “wait-and-see” stance, as inflation—though gradually moderating (Fig 2.3)—remains above its 2% target. The central bank has revised its GDP growth forecast downward, from 2.1% to 1.7%, reflecting expectations of more subdued economic activity. Additionally, inflation projections have been raised from 2.5% to 2.8%, while the unemployment rate is now anticipated to rise slightly to 4.4%, up from a previous estimate of 4.3%. Consequently, end-market demand is expected to soften, as macroeconomic headwinds exert increasing pressure on consumer spending capacity.

(ii) Credit Availability & Accessibility: The Rise in FinTech Firms is Improving Borrowing Inclusion – Positive

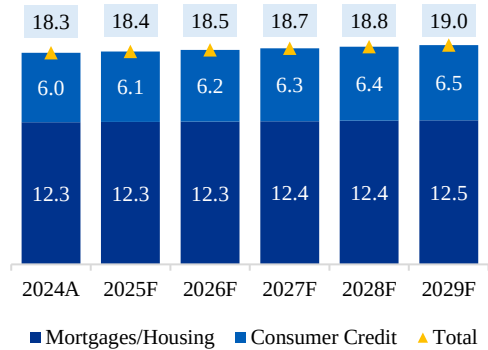
The rise of FinTech has significantly broadened lending opportunities through digital-first, online application processes. Notably, individuals from low- and moderate-income backgrounds, as well as historically marginalised groups, are now beginning to gain improved access to personal lending. As this expansion increases the overall population eligible for borrowing, the total addressable market for credit scoring firms correspondingly grows. This also enhances their potential for uplift during periods of macroeconomic growth. As a result, the unsecured personal lending market has grown to US\$251bn, driven by FinTech lending. Accordingly, a higher application volume is anticipated.

Figure 1.5: FICO’s Key Cost Drivers (% of Revenue)



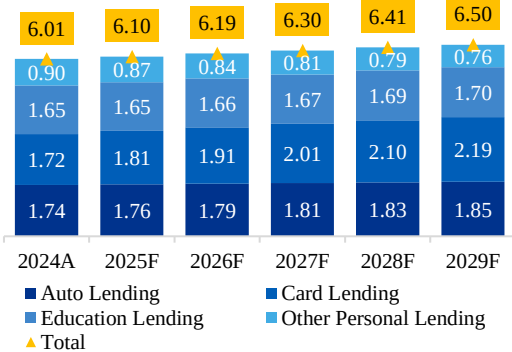
Source: Company Filings

Figure 2.1: U.S. Consumer Lending Market Size (US\$tn)



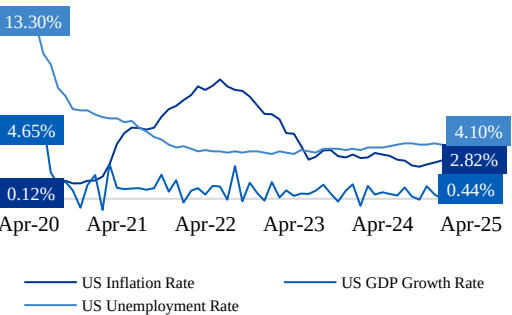
Source: Euromonitor

Figure 2.2: U.S. Consumer Credit Market Size (US\$tn)



Source: Euromonitor

Figure 2.3: U.S. Monthly Inflation, GDP, and Unemployment



Source: U.S. Bureau of Labour Statistics

(iii) **Forecasts Support Long-Term End Market Recovery With Declining Rates Expected – Positive**

As inflation in the U.S. continues to moderate, Morningstar foresees the Feds cutting rates to stimulate economic growth and reverse current slowdowns. In addition, Morningstar expects the Feds to focus more on achieving full employment and economic growth provided moderating levels of inflation. Accordingly, Morningstar projects Fed rates to potentially reach 2.25-2.50% by 1H'27. Morningstar also notes that lower rates are required to improve housing affordability and stimulate demand in the ailing market. This is supported by recent shift in the Federal Housing Financing Agency (FHFA) leadership from Sandra Thompson to Bill Pulte, under the Trump administration.

Industry 2: Applied Intelligence Platforms in Financial Services

AI is a powerful tool in financial services, used for risk management, fraud detection, automation, decision-making, customer relationship management, and more. Applied intelligence combines human input with AI to enhance business services and processes. Various consulting firms, through studies and research, have arrived at the consensus that applied intelligence platforms boost efficiency, reduce costs, improve risk management, and enhance revenue generation for clients. This makes its application attractive amongst firms and thus, driving demand.

(i) **Complexity in Complete AI Integration Amongst Financial Services Firms – Positive**

While AI boosts efficiency, its integration poses challenges, including data privacy, automation's socio-economic impact, and ethical bias. Financial institutions aim for responsible and transparent AI. Gartner discloses that 93% of financial firms have low business composability, while Deloitte, JP Morgan, and others, report full implementation often takes over two years. In addition, by shifting to services, in-house costs are eliminated, uncovering opportunities for applied intelligence providers to cater to a significant total addressable market.

(ii) **There Is A Growing Need For Personalisation To Be Carried Out By Service Providers – Positive**

Applied intelligence platforms are becoming increasingly vital within the financial services sector, as firms require deeper and more comprehensive insights into their customers. This enhanced understanding enables organisations to more effectively attract, onboard, manage, and protect their clientele. According to Accenture's Global Consumer Pulse report (Figure 2.6), 84% of consumers state that personalised treatment is crucial to securing and maintaining their business. Moreover, 76% indicated they would consider switching to a competitor offering a superior personalised experience. Additionally, 33% of consumers reported having left a provider due to insufficient personalisation. As such, the implementation of these platforms is essential for firms aiming to remain competitive in an evolving market landscape.

Competitive Positioning

Credit Scoring

FICO Is The Undisputed Market Leader

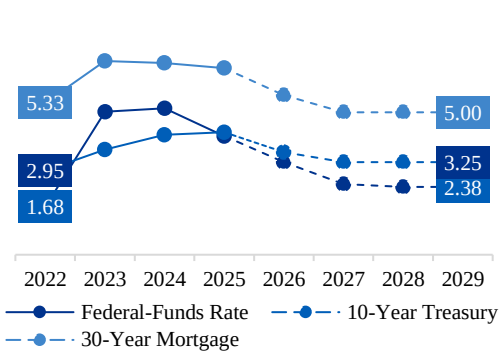
FICO dominates credit scoring, with 90% of U.S. lenders and 95% of asset-backed securitisations relying on its score. Limited competition from the three credit bureaus and others results in high switching costs for lender and end consumers, cementing FICO as the industry standard. While VantageScore, FICO's main competitor, has yet to challenge FICO's dominance, upcoming FHFA regulations in Q4'25 will expand its presence and could begin posing a competitive threat.

Applied Intelligence Platforms

Varied and Amorphous Competition

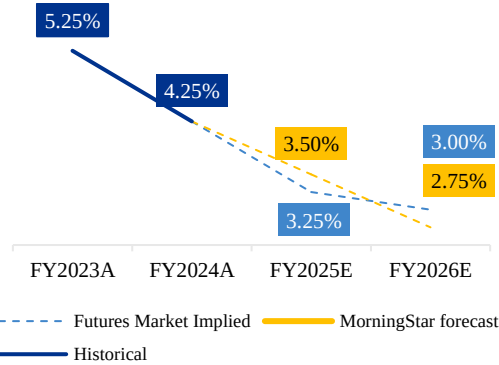
Applied intelligence platforms have diverse applications, making FICO's competitors vary. Its main rival is Experian, with PowerCurve and Ascend Technology Platform, while others may include SAS Institute, IBM, Pegasystems, and Equifax. FICO leads in EPS performance (Fig 3.1) and shows strong demand for its FICO Platform as it integrates services. In addition, FICO's decisioning platform is highly rated among its peers and alternatives (Fig 3.2).

Figure 2.4: Interest Rate Expectations



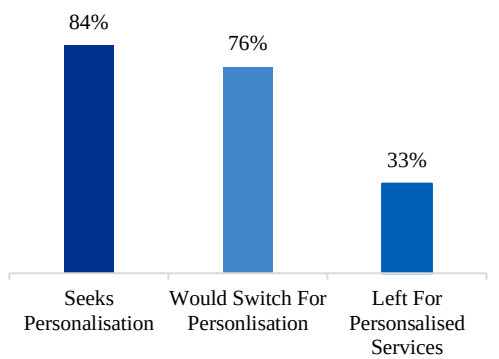
Source: Morningstar

Figure 2.5: Federal-Funds Rate Forecast Comparison



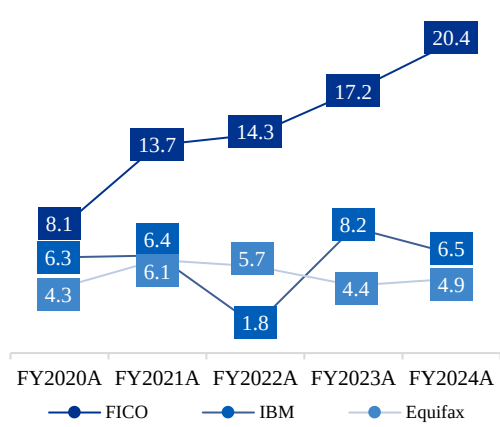
Source: Morningstar

Figure 2.6: Growing Need For Personalisation



Source: Accenture

Figure 3.1: Best-In-Class EPS



Source: S&P Capital IQ

Investment Theses

Thesis 1: FICO’s Economic Moat – An Enabler of Strategic Resilience and Catalyst for Strong Rebounds

(1.1) Incontestable control in the Credit Score industry gives FICO undisputable pricing power.

The credit scoring industry is completely dominated by FICO (Fig 4.1), whereby FICO’s position is solidified through exclusive agreements with major lenders. Consumers face significant switching costs due to the lack of domestic competition, keeping them reliant on the FICO Score. The industry is also characterised by considerable barriers to entry, including the need for technological infrastructure to access and analyse data, strict compliance with regulatory requirements, and the trust and brand loyalty that can compete with what FICO has built over the years. FICO’s dominant position is also supported by its strong unit economics, enabling flexibility in strategies.

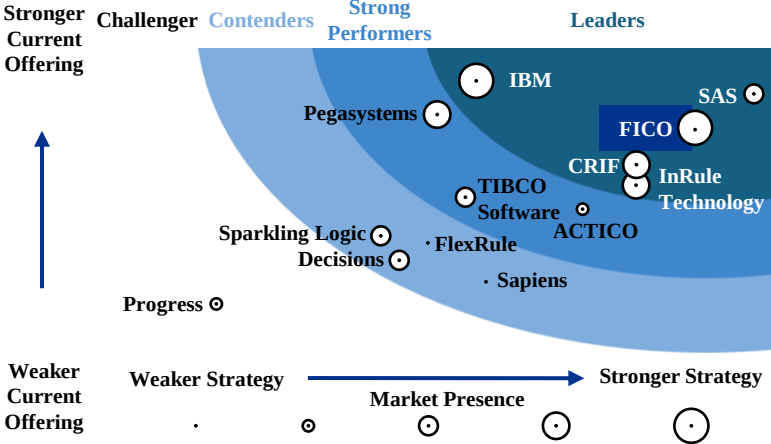
This market structure affords FICO substantial pricing power, allowing them to dictate the terms of their revenue growth. Accordingly, despite a decline in applications across end markets, FICO has continued to grow its Scores revenue (Fig 4.2). Looking ahead, we foresee FICO benefitting from the cyclical nature of the industry (Appendix D), with rates projected to decline for economic stimulation (Fig 2.4 & 2.5). Hence, allowing loan application volumes to recover to healthy levels across end markets which will amplify FICO’s revenue growth.

(1.2) FICO’s dominance to remain despite the FHFA’s mandate of VantageScore in credit assessments.

Scheduled for implementation in Q4’25, the FHFA’s ruling opens the door for VantageScore by mandating the use of bi-merge credit reporting for mortgage loans acquired by Fannie Mae and Freddie Mac. This involves replacing the classic FICO Score with the FICO 10T model alongside combining it with VantageScore 4.0. As a result, the street remains uncertain as the transition could pave the way for non-government-sponsored enterprises (non-GSEs) to adopt VantageScore. However, it’s important to note that the ruling only applies to GSEs and does not mandate that non-GSEs adopt VantageScore. Moreover, the industry is not fully prepared or willing to accept the change.

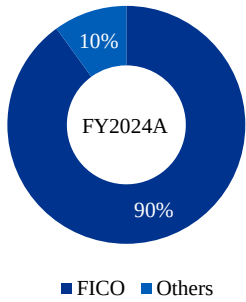
To highlight this lack of readiness, a coalition of 17 associations, led by the Housing Policy Council and other organisations, has raised concerns that the transition will occur in phases and may not sufficiently address the widespread impacts. These include implementation costs and significant consequences for consumers. A study by TransUnion reveals that 2mn consumers could become ineligible for GSE loans, while 600k new mortgage borrowers per year, as well as those previously ineligible, may now qualify, which would increase default risk for institutions.

Figure 3.2: Applied Intelligence Platform Rank Mapping



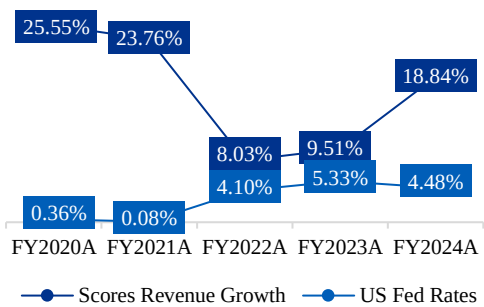
Source: Forrester

Figure 4.1: FICO Credit Score Industry Market Share



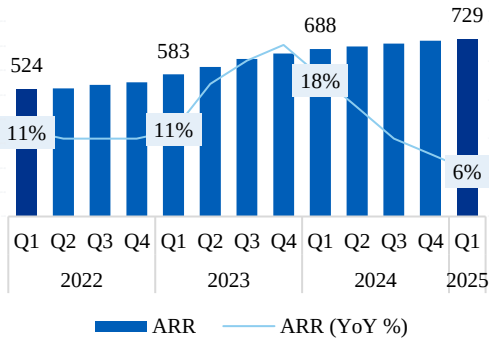
Source: Company Filings

Figure 4.2: Scores Revenue Growth Amidst Headwinds



Source: Company Filings & Team Analysis

Figure 5.1: Annual Recurring Revenue (ARR)



Source: Company Filings

Given the challenges mentioned and the fact that the FHFA has already delayed the implementation of the bi-merge credit reporting system (originally set for Q1'24), there is little reason to believe the ruling will significantly impact FICO's competitive position. Additionally, with Sandra Thompson's resignation, there is now no longer a set timeline for the ruling.

In the worst-case scenario, the industry will continue to rely on FICO. The industry has no historical experience with VantageScore and its lack of benchmark trending across different economic states further limits its adoption. Hence, FICO will remain in its substantial lead with its superior brand and reliance upon being unmatched.

Thesis 2: FICO's Robust Software Business Poises The Firm For Revenue and Margin Expansion

(2.1) FICO's "Land and Expand" model continues to be successful in attracting clients whilst commanding excellent retention.

FICO adopts a "Land and Expand" strategy, initially concentrating on attracting and then deepening those relationships to drive long-term retention. This approach has been proven highly effective, supported by FICO's extensive network rating clients, within the financial services sector, which includes nearly half of the top 300 global financial institutions, 75% of the world's 100 largest banks, and all of the top 10 companies in the Fortune 500. The company leverages this network alongside its strong brand reputation (Fig 5.3), further reinforced through the publication of industry research, analyst-recognised awards, and compelling client success stories (Appendix E). These case studies often emphasise the cost savings delivered by the FICO Platform (see Appendix E), demonstrating the platform's tangible value. As a result, FICO has reported strengthening Annual Contract Value (ACV) (Fig 5.2) bookings alongside growing Annual Recurring Revenues (ARR), reinforcing our team's confidence in the strategy for the long-term.

FICO's strength shines in the "Expand" phase of its model, where clients onboard the FICO Platform, an integrated environment that brings together the company's key flagship software solutions. This unified platform enables clients to access a wide range of decisioning tools and capabilities through a single interface. In addition to seamless integration, the platform supports external source code and offers utilities that allow clients to customise or build upon FICO's native functionalities. This flexibility enhances user experience and deepens platform dependency, as clients increasingly rely on a blend of FICO's solutions and their own bespoke developments. Consequently, FICO continues to deliver strong Dollar-Based Net Retention Rates (DBNRR) (Fig 5.2), reflecting increased revenue per existing client, while maintaining a churn rate of zero, outperforming the industry (Fig 5.4).

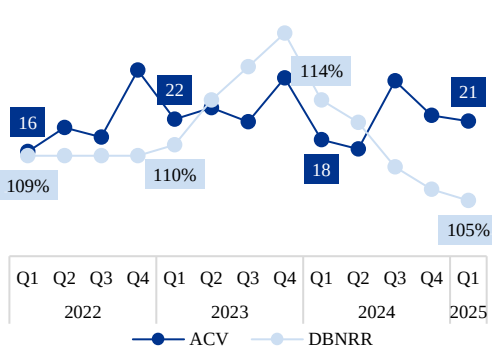
Taken together, these dynamics underpin our confidence that FICO's model will continue to generate sustainable returns, while also positioning the business for sustained margin expansion as the segment scales, driven by a "build once, sell many times" operating model (Fig 5.5) that enhances profitability and operating leverage.

(2.2) FICO is positioned to benefit from industry tailwinds and trends.

The integration of artificial intelligence into operational processes remains a significant challenge for financial services firms. Simultaneously, there is a growing imperative for personalisation to attract and retain customers. In this context, FICO is uniquely positioned to benefit from the rising demand for advanced solutions within the financial services sector.

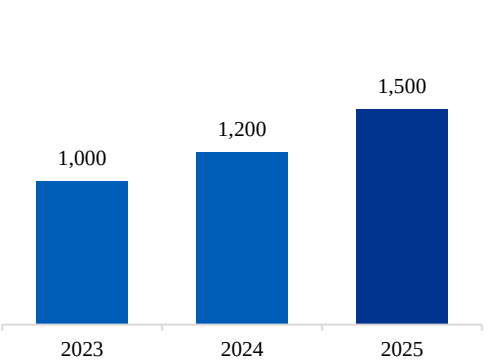
What sets the FICO Platform apart from its competitors is its ability to deliver scalability without compromising on capability. A recent report by International Data Corporation (IDC), a leading global provider of

Figure 5.2: DBNRR and ACV Bookings



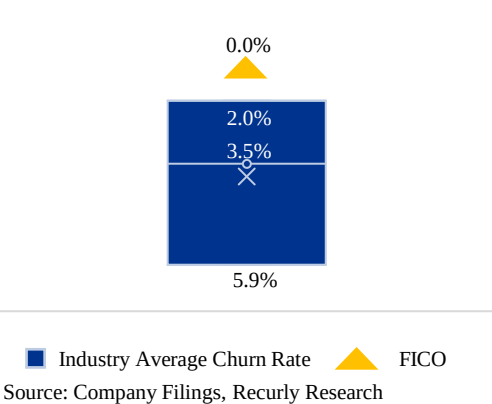
Source: Company Filings

Figure 5.3: Attendees – Business Leaders at FICO World



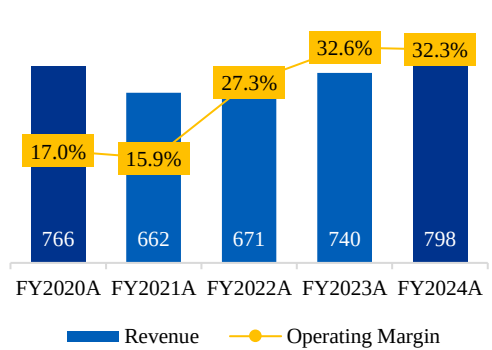
Source: Company Filings & BusinessWire

Figure 5.4: Annual Churn Rate vs Industry Benchmark



Source: Company Filings, Recurly Research

Figure 5.5: Software Business Profitability



Source: Company Filings

market intelligence across information technology, telecommunications, and consumer technology sectors, recognised FICO as a major market leader. The report emphasised the FICO Platform’s superiority over rival offerings (Fig 5.6), citing its scalable data integration capabilities across internal systems and more than 100 external data sources.

Additionally, the platform offers enhanced flexibility in decision modelling, allowing clients to deploy their own models, FICO’s proprietary models, or a combination of both, with the ability to incorporate external source code modifications. IDC also highlighted FICO’s strong brand equity and its longstanding experience working with clients in highly regulated industries. This reputation facilitates seamless adoption, minimising operational disruption.

As a result of these advantages, the FICO Platform presents a compelling value proposition. Backed by its established brand and robust offering, we remain confident in FICO’s ability to achieve sustainable long-term growth.

(2.3) FICO’s recent strategic pivot of focusing on growth for its Software business will amplify future operating leverage power.

In recent earnings reports and conference calls, FICO’s management has expressed a strategic shift in the primary focus of its Software business, shifting from short-term margin expansion and operational efficiency to growth. Unlike FICO’s Scores business, which is predominantly concentrated in North America, the Software business benefits from a more geographically diverse revenue mix (Fig 6.1). This global footprint presents significant opportunities for expansion beyond the constraints of the North American market. Furthermore, FICO’s targeted approach to selecting verticals for expansion underscores our confidence in the long-term success of the Software business. This presents significant opportunities for the firm as it has yet to saturate the financial services market and is now gaining access to new verticals, expanding addressable market.

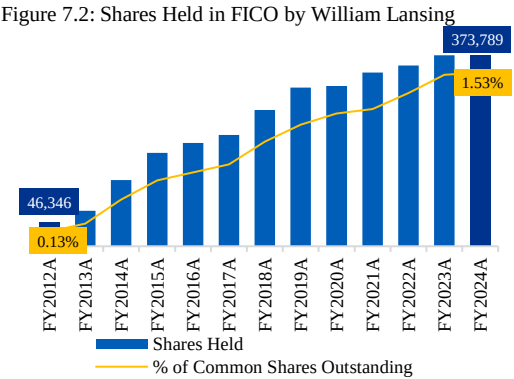
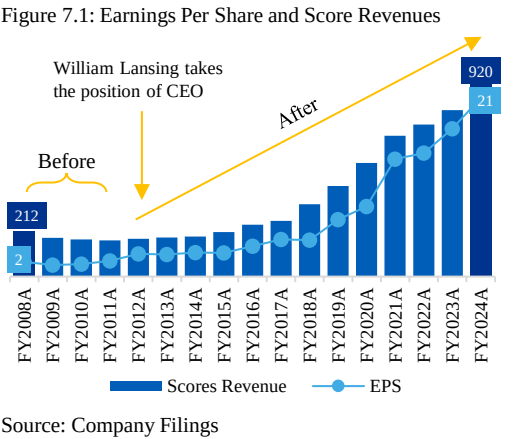
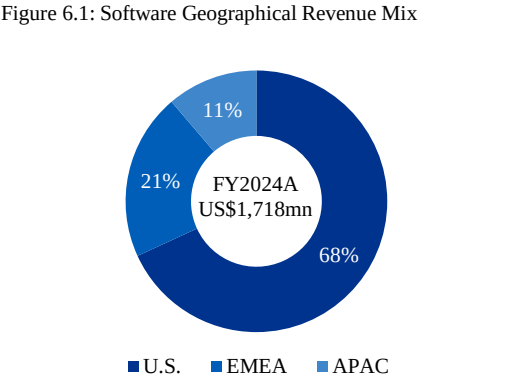
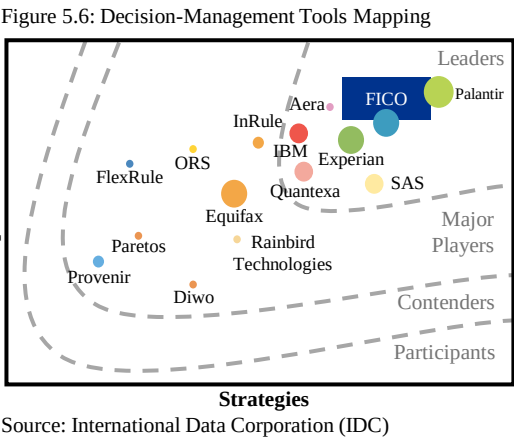
To drive accelerated growth, FICO has increasingly prioritised strategic partnerships with system integrators to promote the FICO Platform across industries beyond traditional financial services. A notable example is the recent partnership with Tata Consultancy Services (TCS), a global leader in IT services, consulting, and business solutions. This collaboration is designed to deliver decision management solutions powered by the FICO Platform to a broad range of industries across the globe.

Given TCS’s presence in over 55 countries and its strong engagement in emerging markets, this global reach aligns well with FICO’s “Land and Expand” strategy as it supports initial client adoption while driving long-term customer retention. We believe this partnership will serve as a key enabler of FICO’s growth ambitions and contribute meaningfully to the expansion and success of its Software business.

Thesis 3: FICO’s Cornered Resource for Long-term Success: Exceptional Leadership

(3.1) CEO William Lansing has been instrumental in FICO’s long-term success and his priorities are continually aligned with FICO.

Turning to leadership, William Lansing has played a pivotal role in FICO’s transformation since becoming CEO in 2012. At the time, the company faced several challenges: reputational damage from the 2007–2008 housing crisis, stagnant revenues, and rising competition from VantageScore—a product of FICO’s strained ties with the credit bureaus since 2006. Lansing acted decisively, recognising FICO’s pricing power and leveraging relationships with major lenders to reduce reliance on the bureaus. He also initiated the first price revision of the FICO Score since 1989 and reoriented operations to focus on consumers—an overdue shift prior management had failed to pursue. This consumer-first approach



culminated in the launch of the FICO Open Access Programme, which enabled lenders to provide credit scores to consumers for free, increasing FICO’s market share from 30% in 2012 to approximately 90% today. Lansing also led the successful transformation of FICO’s software business from a stand-alone product model to an integrated service. His growing ownership and rising compensation reflect stronger alignment with shareholders, reinforcing our view that Lansing remains a key driver of FICO’s long-term growth, demonstrating boldness and calculatedness in strategy and focuses on “quality revenue” as opposed to short-term gains. While there is retirement risk, shareholders have allowed a retention payment of US\$31mn to Lansing. Finally, we note in the worst-case scenario, that Lansing’s strategies are already embedded.

(3.2) Under current management, FICO has been operationally efficient and has consistently surpassed promised performance.

Under current leadership (Appendix F), FICO demonstrates a strong command of its operations and an efficient approach to capital management. This is evident in the company’s ability to address key costs through operational efficiency, deliver growing returns, and consistently exceed performance expectations (Fig 7.3). A significant cost driver for FICO lies in employee compensation, including salaries, incentives, and benefits. Despite this, the company has maintained a lean workforce while achieving rising revenues and profits per employee, reflecting a culture of efficiency fostered by management (Fig 7.4). Furthermore, FICO showcases disciplined allocation of free cash flows into research and development to sustain its competitive edge. Lastly, a review of historical performance against management guidance reveals consistent outperformance, reinforcing our confidence in FICO’s trajectory and the prudence of its leadership team.

Financial Analysis

FICO’s Strong Competitive Position Fuels Top-Line Growth

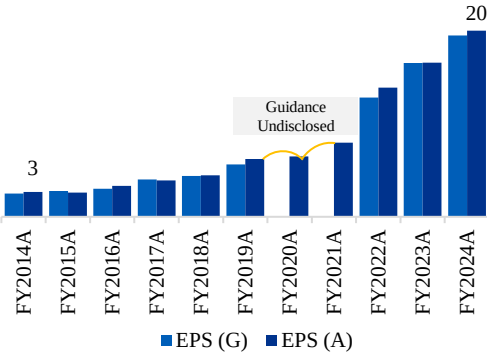
FICO has delivered a strong revenue performance with a ~5.8% CAGR over the past five years, supported by: (1) the company’s quasi-monopoly status in credit scoring, and (2) successful execution of its “land and expand” strategy. With that, FICO is further supported by its strong and growing financials. Looking ahead, our team projects a steady revenue growth of 14.9% CAGR (Fig 8.1), defended by: (1) Scores – Strong pricing power, (2) Software - Sustained growth in the FICO platform’s adoption, (3) Management – Exceptional leadership that would continue to drive FICO’s success, and (4) Favourable future interest rates which drive end market application volumes.

FICO’s Growing Leverage Is Not Cause For Concern

With FICO’s shift in capital structure, its D/E ratio is expected to rise further from its current level of 43% (includes adjustment for treasury stock). This upward trend is primarily driven by: (1) managements planned \$1 billion share buyback program and (2) increased leverage aimed at achieving the company’s optimal capital structure target of 2.5x to 3.0x to fund business expansion (Figure 8.2).

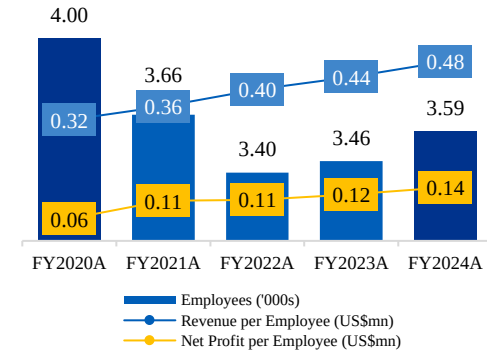
Despite the growing interest obligations, FICO’s liquidity risk remains low, supported by a robust interest coverage ratio of 8.15x—well above the minimum covenant requirement of 3.0x, reflecting the strength of its operating cash flows (Figure 8.3). Over the long term, FICO’s total debt have grown, in line with management’s strategic objectives to achieve its optimal capital structure. As of Q1’25, FICO’s leverage ratio stands at 2.5x—comfortably within its target range (Figure 8.3). Overall, management has effectively leveraged the company’s predictable cash flows and currently has no intention to deleverage in the near term. However, should deleveraging become a priority, FICO retains flexibility through its capital structure, with 47% of its debt being floating rate and repayable at any time, enabling the use of FCF to reduce debt when necessary.

Figure 7.3: EPS – Actual vs Guidance



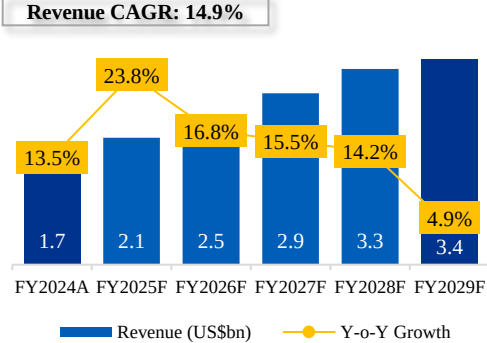
Source: Company Filings

Figure 7.4: Financials Per Employee



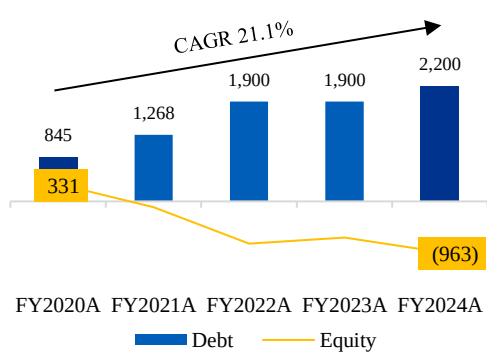
Source: Company Filings & Team Analysis

Figure 8.1: Revenue Forecasts



Source: Company Filings & Team Analysis

Figure 8.2: Net Debt Position (US\$m)



Source: Company Filings

Valuation

Target Price

We arrive at a target price valuation of US\$2,550, implying a 31% upside. This is based on our discounted cash flow analysis, which applies an assumed EV/EBITDA exit multiple of 35.9x. This is predicated on FICO’s 3-year NTM EV/EBITDA average. We select this multiple because of FICO’s economic moat and future FCF generation potential. Due to a lack of directly comparable companies, we forego conducting a sum-of-the-parts analysis or other relative valuation.

Weighted Average Cost of Capital (WACC)

To derive FICO’s cost of equity, we utilised the capital asset pricing model. With a substantial portion of revenues being derived from the U.S., we assumed a risk-free rate of 4.3% based on the US 10-year treasury yield as at 25th April 2025. FICO’s beta was computed based on peer-comparable median beta which was re-levered with the hamada approach – giving a beta of 1.10. Finally, an equity risk premium of 4.3% was assumed as found in Damodaran’s dataset, giving a cost of equity of 7.6%.

FICO’s pre-tax cost of debt was derived by summing the risk-free rate as at the valuation date and a synthetic credit spread based on Damodaran’s criteria for firms – giving a pre-tax cost of debt of 5.8%. Applying a tax shield, with a tax rate of 21%, we arrive at a cost of debt of 4.6%. Applying a market D/E of 4.6%, we arrive at FICO’s WACC of 7.5%. Comparable peers to derive FICO’s beta include a set of businesses with similar software services and operate in financial services.

Investment Risks – Negative and Positive

Business Risk 1 (B1) – Roadblocks In Setting Price Markups

FICO’s Scores business grows through loan application volume and per-application pricing. During downturns, it relies on pricing power for resilience; however, aggressive pricing has drawn industry pushback, which may constrain this strategy.

B1 Mitigation – Public Stances Backed By Market Leadership

Despite criticism, FICO Executive VP Jim Wehmann publicly clarified that FICO Score pricing is comparable to everyday expenses and that FICO doesn't control credit bureau markups. Additionally, the industry's deep reliance on the FICO Score makes it difficult to replace quickly or effectively.

Business Risk 2 (B2) – Software Business May Not Achieve Scale

We see strong potential in FICO's Software business, led by the scalable FICO Platform, to drive overall profitability and expand its addressable market beyond the Scores business. However, there is a risk that adoption may fall short of expectations.

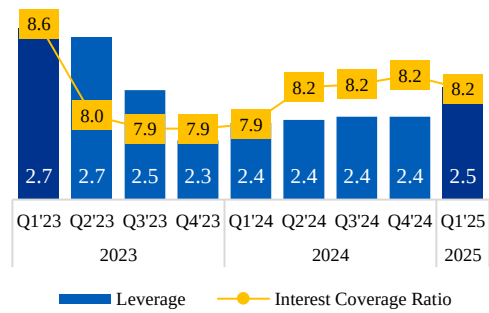
B2 Mitigation – Effective Use of The “Land and Expand” Model

To address adoption challenges, FICO has expanded into new verticals by partnering with firms likely to leverage its platform—such as TCS, which generates over three times FICO's revenue and serves diverse emerging markets. This strategy helps establish early reliance on FICO’s platform, driving long-term revenue and profit growth. Additionally, industry recognition through research publications, success stories, and analyst awards enhances FICO’s visibility and competitive positioning.

Valuation Risk 1 (V1) – End-Market Torque Possibility

The team notes the cyclicity of the mortgage market, the main driver of FICO’s credit scoring revenue. Presently, the market remains in a cyclical ebb. However, given price increases in-place to weather macro headwinds, a torque in the market presents significant upside potential given the amplification of returns that increased price per application presents in events of surging application volumes.

Figure 8.3: FICO Leverage Position



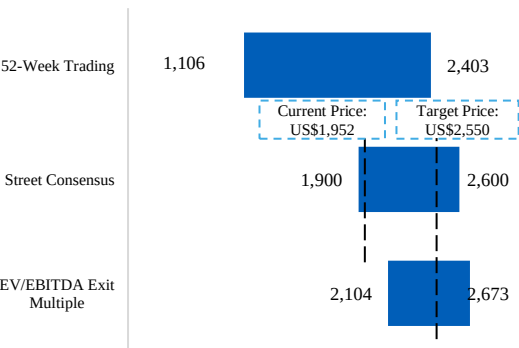
Source: Company Filings

Figure 9.1: Sensitivity Analysis

		WACC				
		6.8%	7.8%	8.8%	9.8%	10.8%
Exit Multiple	33.9x	2,596.7	2,504.0	2,415.4	2,330.7	2,249.7
	34.9x	2,668.9	2,573.6	2,482.5	2,395.4	2,312.1
	35.9x	2,741.0	2,643.2	2,549.6	2,460.2	2,374.6
	36.9x	2,813.2	2,712.7	2,616.7	2,524.9	2,437.1
	37.9x	2,885.4	2,782.3	2,683.8	2,589.6	2,499.5

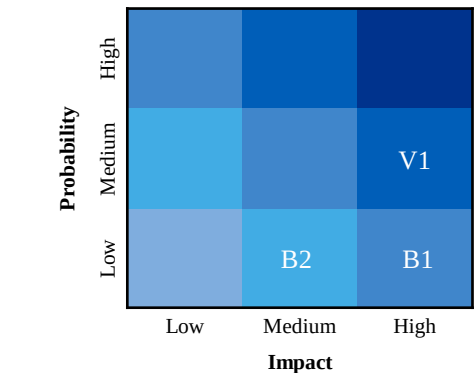
Source: Team Analysis

Figure 9.2: Football Field Chart (US\$)



Source: Team Analysis

Figure 10.1: Risk Matrix



Source: Team Analysis

Environmental, Social, and Governance (ESG)

FICO demonstrates a strong commitment to sustainability, evidenced by its ESG score of 20.1 (Fig 11.1), which reflects its proactive efforts in environmental, social, and governance domains. This places FICO within a competitive range compared to its industry peers, highlighting the company's deliberate strategy to embed ESG considerations across its operational and corporate decision-making processes. Ultimately, these efforts will help to align the company's business objectives with broader sustainability goals while driving long-term value.

Environmental – Sustainable In-House and Beyond

FICO demonstrates strong commitment to environmental sustainability by reducing its carbon footprint through energy conservation, responsible resource use, and operational efficiencies. Initiatives such as technology consolidation, recycling, telecommuting, and the use of sustainable materials not only lessen environmental impact but also generate cost savings, complementing FICO all around.

Beyond its own operations, FICO enables clients to improve their environmental performance through automation. For instance, Hoist Finance reduced their carbon emissions by 442 tons for every 10% of customers who used automated processes enabled by FICO—cutting emissions per digital resolution by 97% and enabling Hoist to solve a third of debt cases digitally. These efforts reflect FICO's broader role as a responsible environmental steward, supporting sustainability both internally and across its client network.

Social – Ensuring Responsible Management and Talent Acquisition

A key risk FICO faces in its operations is data privacy and cyber security. Accordingly, FICO adopts a prudent approach to training its employees, ensuring participation in available programmes and raising awareness of data privacy and cyber security risks. FICO is a member of the PCI Security Standards Council and maintains certifications and security control validations, demonstrating that its products are developed with industry best practice security controls in mind.

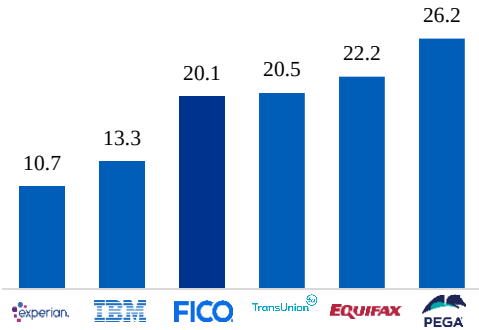
As a software-focused business, FICO relies on talent and recognises the value of diverse perspectives. Therefore, FICO invests in formal programmes aimed at promoting diversity through networking, talent management, and targeted career development (Fig 11.2). FICO's strategy is supported by research, as scientific literature shows that diverse teams tend to be more successful due to their varied perspectives and backgrounds.

Governance – Upholding Ethical Conduct and Accountability

FICO's Board of Directors comprises eight members who bring an abundance of experience and expertise from diverse industries, contributing valuable insights across various facets of the company's operations. The depth of experience among FICO's leadership also strengthens their capacity to effectively manage risks associated with operational threats. Furthermore, the absence of a mandatory retirement age allows board tenure to be determined by individual performance, continued contributions, and alignment with board qualifications.

To uphold strong corporate governance, FICO has established several oversight committees that reinforce ethical conduct and organisational accountability. These committees are responsible for evaluating the performance of the key personnel and departments. Through regular assessments and adherence to clearly defined standards according to its code of business conduct and Ethics, FICO ensures that leadership remains aligned with the company's strategic goals and maintains the highest levels of integrity and effectiveness. Finally, FICO's leadership is also compensated well, aligning their efforts with the priorities of FICO.

Figure 11.1: ESG Risk Ratings Across Industry Competitors



Source: Sustainalytics

Figure 11.2: Diversity, Equity, and Inclusion in FICO



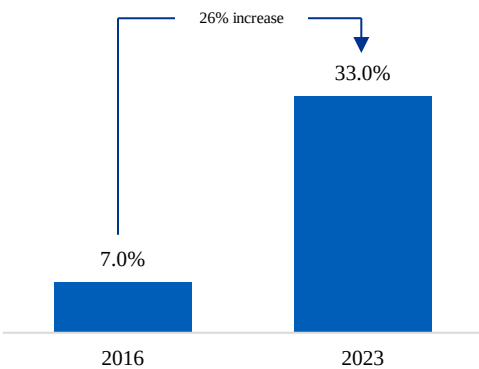
Source: Company Website

Figure 11.3: Management Age and Expertise

Key Management		
William J. Lansing CEO	67	M&A, Digital Transformation
Stephanie Covert Executive VP, Software	Undisclosed	Operations & Sales Strategy
James Wehman Executive VP, Scores	61	Credit Scoring & Analytics
Mark Scadina Executive VP, General Counsel	55	Regulatory Compliance & Corporate Law
Steven P. Weber Executive VP & CFO	61	Financial Strategy
Industry C-Suite Average	56	

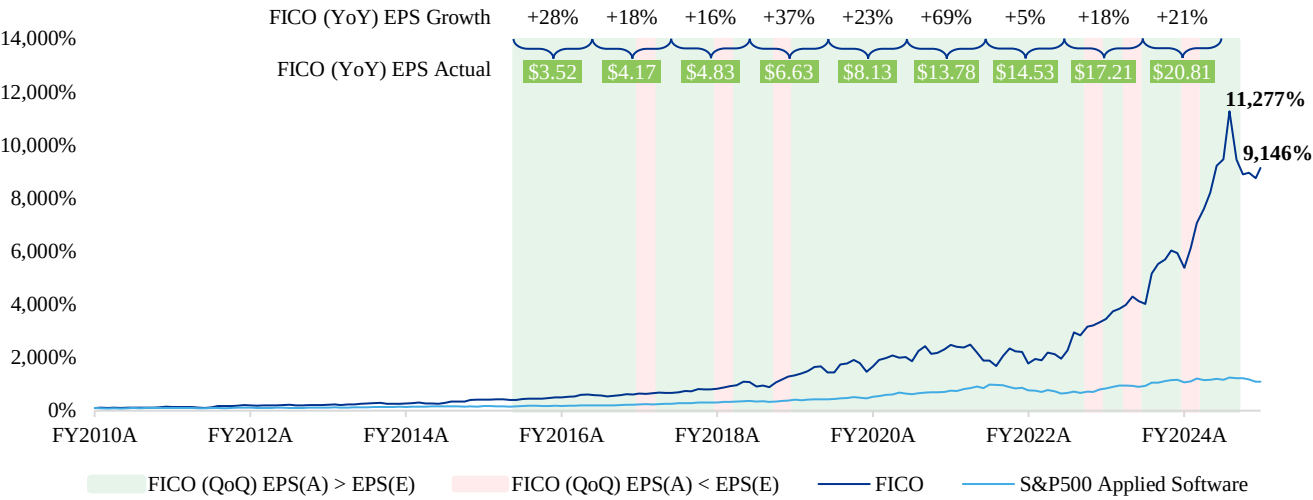
Source: Company Filings

Figure 11.4: Rise in Employee Equity Ownership



Source: Company Filings

Appendix A: FICO 15Y Price Performance VS S&P500 Applied Software



Since 2010, FICO’s stock has soared as much as 11,277%, vastly outperforming the S&P 500 Applied Software index. This remarkable rise reflects consistent EPS growth, frequently beating expectations, as illustrated by the sustained momentum during periods of outperformance (green bands in the chart). FICO’s strong revenue growth, margin expansion, and shareholder returns have been driven largely by its high-margin Scores business, which has effectively leveraged pricing power. With a proven track record and resilience through cycles, FICO remains well-positioned for continued outperformance.

Appendix B: Porter’s Five Forces Analysis – Credit Scoring Industry

Industry Competition: Moderate

Competition within the industry is moderate because, while the market is concentrated among key players, there is ongoing pressure to scale and expand their service offerings. These firms not only provide credit scores but also compete through proprietary analysis software. However, as financial technology advances and new players leverage alternative data and machine learning, incumbents face increasing pressure to maintain their relevance and improve their technology offerings.

Potential of New Entrants: Low

The threat of new entrants is low to moderate because of the substantial start-up costs and regulatory barriers involved. Developing a reliable and scalable credit scoring model requires significant investment and a robust infrastructure capable of handling vast amounts of consumer data. Additionally, new entrants must overcome the challenge of building trust with financial institutions that prioritize proven, standardized models. The integration of proprietary technologies into customer workflows also increases switching costs, making it difficult for new firms to displace existing providers. While advancements in AI and open banking lower technical barriers, the need for regulatory approval and long-standing customer relationships make market entry challenging.

Threat of Substitutes: Moderate

The threat of substitutes in this industry is moderate because alternative credit scoring methods are gaining traction, but their adoption has yet to pick up. AI-driven platforms and models using alternative data offer new approaches to credit assessment. However, these alternatives require significant capital to develop and face hurdles related to regulatory approval, data reliability, and standardization.

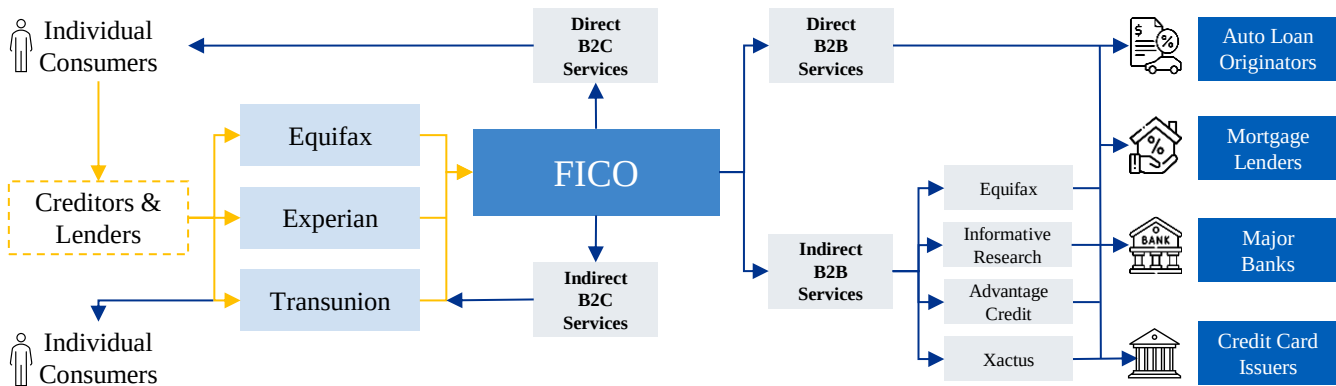
Power of Customers: Moderate

The bargaining power of customers in this industry is moderate because large financial institutions, mortgage lenders, and credit unions have access to multiple credit scoring models and decisioning tools. This gives them the ability to negotiate pricing and demand additional features such as fraud protection and more flexible credit assessments. However, the industry’s leading firms maintain an advantage due to the entrenched use of their scoring models and the high costs associated with switching to an alternative systems.

Power of Suppliers: Moderate

The bargaining power of suppliers in this industry is moderate because credit bureaus rely on a limited number of high-quality data sources, including banks, financial institutions, and public records. These data providers hold some leverage due to their control over essential consumer information. However, the leading credit bureaus mitigate this power through long-term, exclusive agreements and the ability to aggregate data from multiple sources.

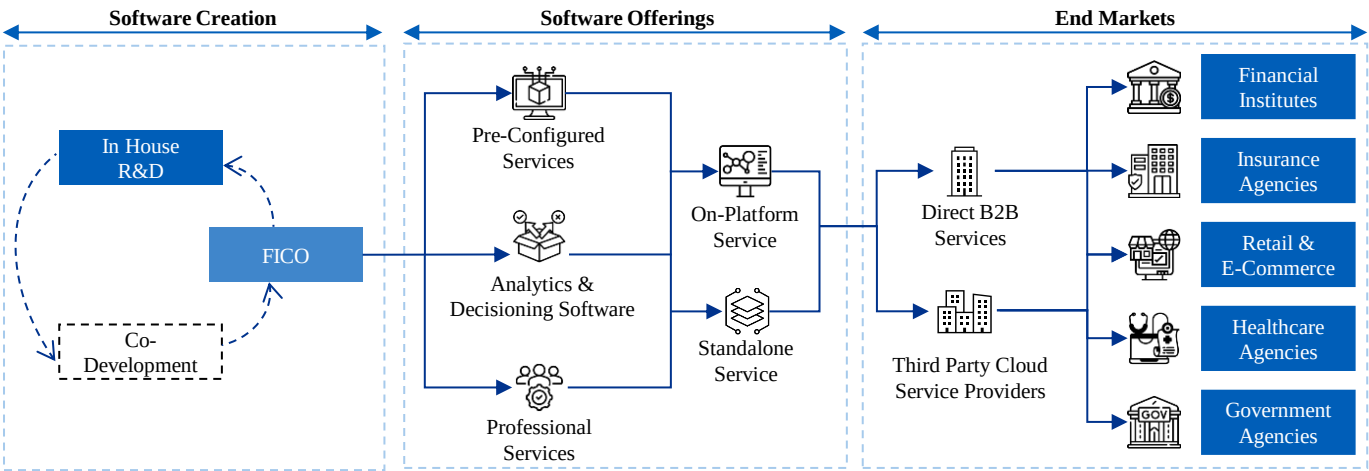
Credit Score Segment



FICO's credit score revenue segment is generated by serving both individual consumers and institutional clients through a combination of direct and indirect channels. At the foundation of this model, FICO partners with the three major credit bureaus — Equifax, Experian, and TransUnion — which aggregate credit data from creditors and lenders. This partnership enables FICO to continually refine and scale its credit scoring model, the FICO Score 10T. The credit scores produced by the FICO Score 10 T model is then sold back to individual consumers, either indirectly through the three major credit bureaus (Indirect B2C Services) when consumers request their personal credit scores, or directly through FICO's own channels (Direct B2C Services).

On the institutional side (B2B Services), FICO supplies its primary end-market clients — including Auto Loan Originators, Mortgage Lenders, Major Banks, and Credit Card Issuers with credit scoring solutions. These services are delivered either directly through FICO's own infrastructure (Direct B2B Services) or indirectly through key distribution partners such as Equifax and Informative Research (Indirect B2B Services), ensuring broad accessibility and integration across financial markets.

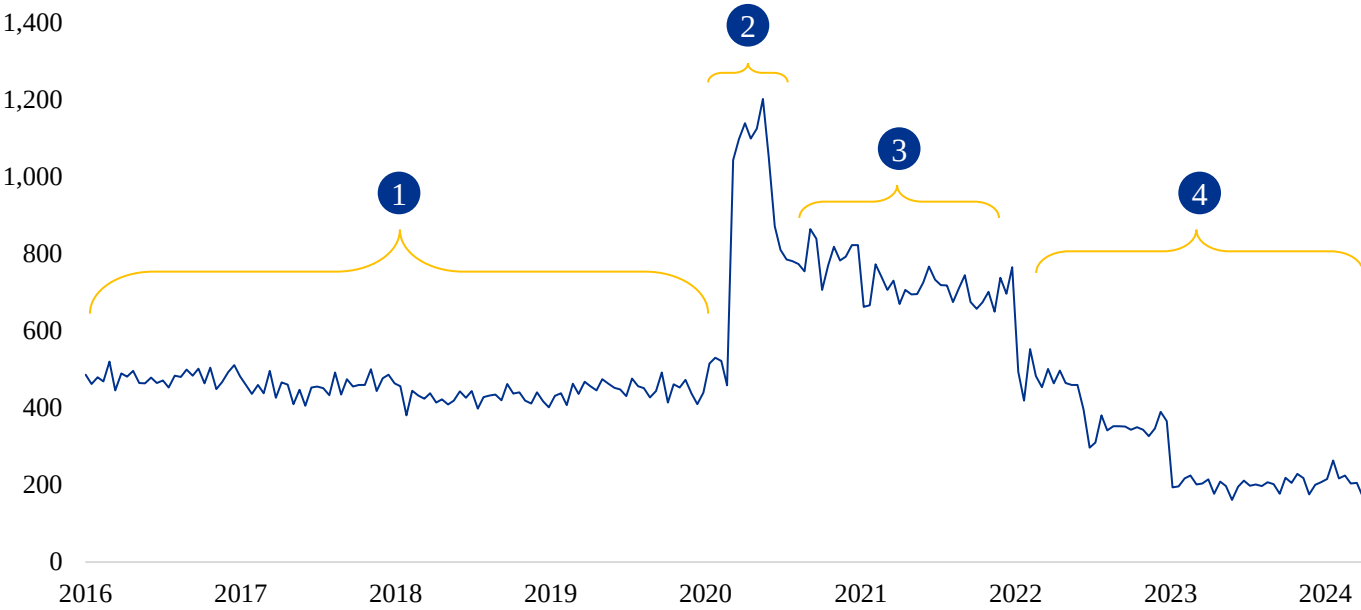
Software Segment



FICO's SaaS revenue stream is derived from providing their customers with access to, and support for its FICO Platform services on a subscription basis recognized ratably over the service period. Its core model, the FICO Platform software is developed through investments in inhouse research while, external partnerships allow for the co-development of customized products suited for a specific goal. These software services are categorized into three main segments: Pre-Configured Services, Analytics & Decisioning Software, and Professional Services which includes software implementation, consulting, model development and training. The majority of its software offerings are available on the FICO Platform, while some standalone services are in the process of being incorporated on to the Platform.

These service segments are delivered through two primary service streams. First, through its own infrastructure (Direct B2B Services) where FICO directly offer its products to its end market consumer, primarily financial institutes along with other industries such as Insurance and healthcare. Second, through third party cloud service providers which hosts and maintain FICO Platform solutions on for their clients, ensuring continuous performance and support.

Appendix D: Weekly Mortgage Applications Volume Analysis



1

This period in the mortgage market is considered healthy and “neutral,” with origination volumes expected to range between 7.4 million and 8.4 million. It reflects a time of steady economic and financial growth, highlighted by an 18% increase in net worth.

2

This period, known as the “pandemic mortgage boom,” saw a dramatic surge in lending as the Freddie Mac benchmark rate for 30-year mortgages dropped below 3%. This sharp decline fuelled a wave of refinancing—rising from US\$1 trillion to US\$2.6 trillion in a single year—and boosted purchasing power across the housing market.

3

With a prior boom, tightening credit conditions and rising mortgage rates led to a steep decline in application volumes where refinancing faced the biggest cut in volumes. The market saw alternative methods of mortgage financing such as home equity lines of credit.

4

Mortgage applications have declined amid rising interest rates and housing prices. However, the Mortgage Bankers Association (MBA) projects a market rebound, supported by forecasts of economic recovery and anticipated lower future rates. Optimism has also grown with Bill Pulte assuming a leadership role under the Trump administration.

Appendix E: FICO Platform Success Stories

Banking & Financial Services	BAC (2019) 	Partnered with FICO to roll out Extrafinanciamiento — a credit solution catered for underserved communities. Extrafinanciamiento comprises 35% of BAC’s credit card portfolio with a NPS of 93 and 30% reduction in data submissions.
	Banco De Credito (2022) 	To digitalize and streamline its loan pricing to stay competitive, Banco De Credito leveraged on the FICO Platform to optimize pricing strategies. 22% increase in revenue and 25% uplift in loan bookings.
	Trust (2022) 	Trust Bank partnered with FICO to support real-time credit decisions, personalized risk assessments, and policy rule adjustments. Achieved 100k users in 10 days and 300k in 2 months, with 90% straight-through processing.
	Absa (2023) 	Leveraged FICO to segment customers more precisely and automate low-risk interactions so the collection team could focus on high-risk cases. In 6 months, Absa cut roll rates by 1.3%, saved 6mn Rand, and reduced call times by 8%.
	PicPay (2024) 	PicPay deployed the FICO® Platform to integrate onboarding, credit management, and analytics across its super app. Achieved 10% higher approvals, 230% growth in loans, and 62% portfolio expansion as of mid-2024.
	Lloyds Banking Group (2024) 	Used the FICO® Platform to enhance real-time credit decisioning, helping it approve more customers while maintaining strong risk controls Makes 80k credit decisions monthly, unlocked over £7bn in lending, and cut strategy deployment times by more than 50%.
Energy and Utilities	Shell (2017) 	Partnered with FICO and Yokogawa to roll out PACE—enabling real-time, predictive, and scalable optimisation. Greater operational stability, smarter control of process units, lower emissions, and improved energy efficiency..
	Artelys (2020) 	Artelys used FICO® Xpress Optimization to power the TERRE platform, enabling European TSOs to balance electricity reserves across borders.. Processed up to 500k bids in under three minutes, achieved 99.9+ system availability, improved grid stability, and enhanced renewable energy integration for 300mn Europeans.
	Uniper (2020) 	Uniper used FICO® Xpress Optimization to move complex energy modelling to the cloud and optimise trading, storage, maintenance, and forecasting. Enabled faster, more accurate decision-making across energy markets, improved asset management, unlocked new revenue streams, and maximised value from volatile markets.
	AGL (2023) 	Used FICO® Customer Communication Services to launch a personalised digital collections platform, sending tailored video messages via SMS and email for self-service bill management. Achieved a 29% rise in one-click payments and AUD\$19mn uplift in annual collections.

Appendix E: FICO Platform Success Stories (2)

Transportation	Southwest Airlines (2004) 	Southwest Airlines used FICO® Xpress Optimization to streamline fleet, crew, and scheduling operations for greater efficiency and resilience. Reduced runtimes by 50–90%, cut planning time from two weeks to two days, and improved on-time flight performance by 2%
	American Airlines (2009) 	American Airlines uses FICO® Xpress Optimization to streamline fleet, crew, maintenance, and revenue operations. Optimised fleet and crew assignments faster and more efficiently, supporting daily operational decisions at the world's largest airline.
	Avis Europe (2017) 	Avis Europe used FICO® Xpress Optimization to improve fleet distribution, optimise sales restrictions, and forecast fleet usage to drive profitability. Achieved a two-point increase in fleet utilisation, translating to \$19mn in annual gains.
	SA Taxi (2019) 	SA Taxi used FICO® Decision Modeler to automate credit decisions and scale loan origination through cloud-based management. Automated 70% of decisions, achieved a 25% growth in loan book, and reduced credit decision time from two hours to just minutes.
	Sony Interactive Entertainment (2021) 	Sony used the FICO® Decision Management Platform to protect PlayStation Network accounts and transactions from fraud. Sony strengthened fraud prevention and platform security through its partnership with FICO.
Telecommunications, Media and Entertainment	Telus (2022) 	TELUS used FICO® Application Fraud Solution to detect subscription fraud and streamline real-time onboarding with integrated credit checks. Strengthened fraud detection, streamlined customer onboarding, improved operational efficiency, and reduced losses from device fraud.
	RSG Media (2023) 	RSG Media integrated FICO® Xpress Optimization into its AI-driven platform, Prophet, to improve promo scheduling and inventory utilisation. Achieved a 10–25% increase in viewership conversions across sister channels, up to 17% savings on promotional inventory, and reduced promo plan generation time from weeks to minutes.
	T-Mobile (2023) 	T-Mobile used the FICO® Platform to personalise customer experiences across prospecting, underwriting, and collections with advanced analytics. Enhanced customer engagement and improved operational efficiency by delivering individualized treatments.
	Finra Foundation (2009) 	Partnered with FICO to offer free FICO® Scores and credit tools to active-duty service members and spouses. Helped hundreds of thousands of military families improve financial literacy over 14 years.
Insurance	Mercury Insurance (2022) 	Mercury Insurance used the FICO® Decision Management Platform to digitalise underwriting and speed up policy approvals. Cut decision time by over half, boosted straight-through processing, improved agent satisfaction, and updated hundreds of rules in six months.

Appendix F: Management Profile

Board Member	Profile Overview
 William J. Lansing, CEO	❑ Years On Board: 2006 – Present ❑ CEO Appointment: 2012 ❑ Profile: Prior to FICO, Lansing served as CEO and president of InfoSpace, ValueVision Media, NBC Internet, and Fingerhut – direct marketing. Lansing was also partner at global private equity firm General Atlantic Partners. Moreover, Lansing has also held leadership positions at General Electric, Prodigy, and McKinsey & Company. Finally, Lansing holds a B.A. from Wesleyan University and a J.D. from Georgetown University, further equipping expertise to lead FICO.
 Steven P. Weber, Executive VP & CFO	❑ Years On Board: 2003 – Present ❑ Profile: When Weber joined in 2003, he served as the VP – treasurer, tax, and investor relations. He has served FICO as head of FP&A and has led several public bond issuances, managed syndicated bank lending, stewarded due diligence, integration for M&As, and guided strategic financial planning. Weber holds an MBA from the University of Minnesota – Carlson School of Management.
 Amir Hermelin, CTO	❑ Years On Board: 2022 – Present ❑ Profile: Prior to FICO, Hermelin accumulated valuable experience at SoFi and Google. At SoFi, Hermelin and his team developed an integrated financial services platform for consumers alongside collaborating on SoFi’s strategy to provide an independent platform that would allow FinTech providers to deliver their services. At Google, Hermelin was a founding member of the Google Cloud Platform team, helping Google set, scale, and execute the company’s platform strategy. Finally, Hermelin has also held advisory roles with SaaS platform, analytics companies, and is passionate in bringing innovative ideas to market with Gillot Capital Partners.
 Jim Wehmann, President (Scores)	❑ Years On Board: 2012 – Present ❑ Profile: Wehmann presently serves as the president of FICO’s Scores business. Prior to FICO, Wehmann served as VP at Digital River – marketing in a leading provider of cloud commerce solutions. Nine years at Digital River, Wehmann was responsible for developing, marketing, selling, and executing the company’s marketing services offerings. Wehmann also served as VP of Marketing at Brylane, Senior VP at Bank One (responsible for customer acquisition), and eight years at Fingerhut as Senior VP. Wehmann holds an MBA – graduated with distinction – from Kellogg School of Management.
 Nikhil Behl, President (Software)	❑ Years On Board: 2013 – Present ❑ Profile: As president of FICO’s Software business, Behl leads FICO’s technology and go-to-market operations. He is also responsible for global marketing operations. Previous positions in FICO held include CMO, EVP of Software, and EVP of Sales and Marketing for Software. He has amassed over twenty years of experience within e-commerce and technology having worked at large established tech companies such as Hewlett Packard and numerous Silicon Valley startups.