

REFINITIV STREETEVENTS

EDITED TRANSCRIPT

FICO.N - Q3 2025 Fair Isaac Corp Earnings Call

EVENT DATE/TIME: JULY 30, 2025 / 9:00PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

David Singleton *Fair Isaac Corp - Vice President of Investor Relations*

William Lansing *Fair Isaac Corp - Chief Executive Officer, Director*

Steven Weber *Fair Isaac Corp - Chief Financial Officer, Executive Vice President*

CONFERENCE CALL PARTICIPANTS

Manav Patnaik *Barclays - Analyst*

Jason Haas *Wells Fargo Securities LLC - Analyst*

Simon Clinch *Redburn - Analyst*

Faiza Alwy *Deutsche Bank AG - Analyst*

George Tong *Goldman Sachs - Analyst*

Surinder Thind *Jefferies LLC - Analyst*

Ashish Sabadra *RBC Capital Markets Inc - Analyst*

Kyle Peterson *Needham & Company LLC - Analyst*

Owen Lau *Oppenheimer & Co Inc - Analyst*

Jeffrey Meuler *Robert W. Baird & Co Inc - Analyst*

Ryan Griffin *BMO Capital Markets - Analyst*

Alexander Hess *JPMorgan Chase & Co - Analyst*

Scott Wurtzel *Wolfe Research LLC - Analyst*

Matthew O'Neill *FT Partners - Analyst*

Craig Huber *Huber Research Partners LLC - Equity Analyst*

Kevin McVeigh *UBS - Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to FICO's third quarter 2025 earnings conference call. (Operator Instructions) Please note that today's conference may be recorded. I will now in the conference of what your speaker host, David Singleton. Please go ahead.

David Singleton - *Fair Isaac Corp - Vice President of Investor Relations*

Good afternoon, and thank you for attending FICO's third quarter earnings call. I'm Dave Singleton, Vice President of Investor Relations, and I'm joined today by our CEO, Will Lansing; and our CFO, Steve Weber.

Today, we issued a press release that discuss financial results compared to the prior year. On this call, management will also discuss results in comparison with the prior quarter to facilitate an understanding of the run rate of the business.

Certain statements made in this presentation are forward-looking under the Private Securities Litigation Reform Act of 1995. Those statements involve many risks and uncertainties that could cause actual results to differ materially.

Information concerning these risks and uncertainties is contained in the company's filings with the SEC, particularly in the risk factors and forward-looking statements portions of such filings. Copies are available from the SEC, from the FICO website or from our Investor Relations team.

This call will also include statements regarding certain non-GAAP financial measures. Please refer to the company's earnings release and Regulation G schedule issued today for a reconciliation of each of these non-GAAP financial measures to the most comparable GAAP measure.

The earnings release and Regulation G schedule are available on the Investor Relations page at the company's website, fico.com, or on the SEC's website at sec.gov. A replay of this webcast will be available through July 30, 2026. I will now turn the call over to our CEO, Will Lansing.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Thanks, Dave, and thank you, everyone, for joining us for our third quarter earnings call. In the Investor Relations section of our website, we've posted some financial highlights slides that we'll be referring to during this earnings announcement.

We had another strong quarter and are increasing our fiscal year '25 guidance. As shown on page 2 of the third quarter financial highlights, we reported Q3 revenues of \$536 million, up 20% over last year. We reported \$182 million in GAAP net income in the quarter, up 44%, and GAAP earnings of \$7.40 per share, up 47% from the prior year. We reported \$211 million in non-GAAP net income in the quarter, up 35%, and non-GAAP earnings of \$8.50 per share, up 37% from the prior year.

As shown on page 10, we delivered record-breaking free cash flow of \$276 million in our third quarter. We continue to return capital to our shareholders through buybacks by repurchasing 284,000 shares in Q3. We repurchased over \$0.5 billion of shares this quarter, the largest single quarter buyback in FICO history.

In our scores segment, as shown on page 6 of the presentation, our third quarter revenues were \$324 million, up 34% versus the prior year. While B2B scores was the key driver of growth, we also saw encouraging growth in B2C scores.

FICO Score 10 T is the most predictive broad-based credit scoring model in the US industry today. Through our early adopter program, participating clients are already measurable benefits. Even since the recent FHFA announcement, we signed our latest lender deal just last week, and we've now secured adoption from institutions representing over \$313 billion in annualized mortgage originations, and approximately \$1.52 trillion in eligible mortgages under servicing, all of which underscore the strong momentum and confidence in FICO Score 10 T.

Lenders in the program have been able to validate the power of FICO Score 10 T in real-world mortgage underwriting, in loan production, in execution and in servicing. This quarter, we announced the launch of FICO Score 10 BNPL and FICO Score 10 T BNPL. These are the first credit scores from a leading credit scoring provider to incorporate buy now, pay later data.

These scores will provide lenders with greater visibility into consumers' repayment behavior, enabling a more comprehensive view of their credit readiness, which ultimately improves the lending experience. And we'll expand financial inclusion by helping more consumers to gain access to credit.

These scores will initially each be offered side-by-side with existing versions of the FICO Score at no additional fee from FICO. This approach allows lenders to evaluate the new BNPL enhanced credit scores while continuing to use FICO's industry-leading models that they use today, ensuring a seamless transition and added value.

Lastly, our FICO Score mortgage simulator penetration is gaining speed in the US industry. We now have multiple resellers and mortgage technology platform providers, hundreds of active lenders and thousands of orders placed.

In our software segment, we delivered \$212 million in Q3 revenue, up 3% from the prior year. The revenue increase was driven mainly by growth in platform SaaS. We continue to drive growth in ARR and NRR through our land and expand strategy, with expand driven by increased customer usage.

Pages 7 and 8 of our investor deck highlight the total ARR increased by 4%, with total NRR at 103%, both driven largely by the FICO platform. ACV bookings for the quarter were \$26.7 million compared to \$27.5 million in the prior year. With the help of product innovations announced at FICO World, our pipeline is stronger today than this time last year.

Before passing on to Steve, I'll highlight our strong innovation in the software business. The FICO platform revolutionizes how organizations make decisions and apply intelligence across their customer life cycle. Innovation is at the core of our ability to power an intelligent enterprise.

This quarter, we hosted FICO World, bringing together customers and partners from around the world. Participants collaborated on how FICO platform makes real-time decisions at scale and optimize interactions with consumers.

On mainstage windvailed innovation, spotlighting advancements that will shape the future of decisioning and enterprise AI. We will bring next-generation FICO platform, enterprise fraud solutions part by FICO platform and FICO marketplace to general availability in the second half of calendar 2025.

These innovations will bring new use cases to the market. They will enable smarter explainable outcomes, they'll improve performance. They'll improve the speed of deployment and yield better customer ROI.

On the AI frontier, we leveraged our AI principles, trustworthy, ethical, explainable and responsible and provided a sneak peak of the upcoming FICO focused foundation model, the FICO focused language model and FICO focused sequence model, built for financial services, delivering greater accuracy, explainability and control in high state domains. This will be released for general availability this calendar year.

Our industry analysts are delighted with our innovation. Forrester recently recognized FICO platform as the leader in AI decisioning platforms. This for the fourth time. AI decisioning platforms transform how organizations operationalize both human intelligence and AI at scale, enabling faster, more accurate decisions across complex business processes.

AI decisioning is an important enabler for agentic AI, which is natively available in the next generation of FICO platform. Our partners continue to value our innovation. In the quarter, we signed a new strategic collaboration agreement with Amazon Web Services.

Under the new agreement, FICO and AWS will amplify their work to bring more organizations worldwide the power of AI-driven automated decision workflows with FICO platform. In addition, FICO will broaden its proportion and AWS partner programs to accelerate client adoption of FICO platform.

Let me now pass it over to Steve to provide further financial details.

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

Thanks, Will, and good afternoon, everyone. As Will mentioned, we had another good quarter, with total revenue of \$536 million, an increase of 20% over the prior year. Scores segment revenues for the quarter were \$324 million, up 34% from the prior year.

B2B revenues were up 40%, primarily due to higher unit prices, an increase in volume of mortgage originations and a multiyear US license renewal on our insurance score product. Our B2C revenues were up 6% versus the prior year, partly due to increased revenue from our indirect channel partners.

Third quarter mortgage revenue or originations revenues were up 53% versus the prior year. Mortgage origination revenue accounts for 53% of B2B revenue and 44% of total scores revenue. Auto originations revenues were up 23%, while credit card, personal loan and other originations revenues were up 3% versus the prior year.

Software segment revenues for the quarter were \$212 million, up 3% from the prior year. On-premises and SaaS revenue grew 2% year-over-year, while professional services grew 7%. This quarter, 87% of total company revenues derived from our Americas region, which is the combination of our North America and Latin American regions.

Our EMEA region generated 8% of revenues and the Asia Pacific region delivered 5%. The updated guidance we're releasing today assumes fourth quarter revenues of \$505 million. This is down sequentially due to lower point-in-time revenues within insurance scores licenses and software licenses. We also expect scores originations volumes to be slightly lower due to seasonality as well as the sequential decline in PS revenues.

Our total software ARR was \$739 million, a 4% increase over the prior year. Platform ARR was \$254 million, representing 34% of our total Q3 '25 ARR, up from 30% of total Q3 '24 ARR. Platform ARR grew 18% versus the prior year, while non-platform declined 2% to \$485 million this quarter.

Our CCS business, which spans platform and non-platform, saw a slight uptick sequentially, but overall headwinds we highlighted last quarter continue to be putting pressure on year-over-year ARR growth. Our platform land-and-expand strategy continues to be successful.

Our dollar-based net retention rate in the quarter was 103%, platform NRR was 115%, while our non-platform was 97%. Platform NRR was driven by a combination of new use cases and increased usage of existing use cases. Our software ACV bookings for the quarter were \$26.7 million compared to \$27.5 million in the prior year.

Turning now to expenses for the quarter, as shown on page 5 of the financial highlight presentation, our total operating expenses were \$274 million this quarter versus \$253 million in the prior quarter, an increase of 8%.

Quarterly expense growth was driven primarily by our FICO World event. Two other expense drivers were incremental headcount as well as the marking to market of our supplemental retirement and savings plan which is offset in other income and expense and thus has no net impact to our net income.

In our fourth quarter, we expect increased interest expense. We also expect to have increased marketing expenses as well as some one-time items that could exceed \$10 million. These expenses are all embedded in our updated guidance.

Our non-GAAP operating margin, as shown in our Reg G schedule, was 57% for the quarter compared with 52% in the same quarter last year. This means we were able to deliver non-GAAP margin expansion of 470 basis points year-over-year.

GAAP net income was \$182 million, up 44% from the prior year's quarter. Our non-GAAP net income was \$211 million for the quarter, up 35% from the prior year's quarter. GAAP earnings per share this quarter were \$7.40, up 47% from the prior year. Our non-GAAP earnings per share were \$8.57, up 37% from the prior year.

The effective tax rate for the quarter was 23.3%. The operating tax rate was 24.6%. We expect our full year net effective tax rate to be around 20%, and our recurring tax rate to be around 25%. This quarter, we delivered very strong free cash flow, up to \$276 million, a 34% increase from the prior year.

Over the last four quarters, we've delivered \$748 million of the free cash flow, which represents an increase of 36% over the trailing 12 month period ending June 30, 2024. At the end of the quarter, we had \$240 million in cash and marketable investments.

In May, we issued an 8-K detailing our debt refinancing. Our total debt at quarter end was \$2.78 billion, with a weighted average interest rate 5.25%. As of June 30, 2025, all our debt was held in senior notes, with no term loans and no balance on our revolving line of credit. So at that time, 100% of our total debt was fixed rate.

Turning to return of capital. We bought back 284,000 shares in the third quarter at an average price of \$1,802 per share, and we continue to view share repurchases as an attractive use of cash.

With that, I'll turn it back to Will for his closing comments.

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

Thank you, Steve. Elevated interest rates and ongoing affordability challenges continue to weigh on the mortgage market, keeping loan originations below historical norms. While the macro environment remains fluid, our strategy, our innovation, our execution remain disciplined and consistent.

I'm pleased to report that today, we're raising our full year guidance as we enter the fourth quarter of our fiscal year. Revenue guidance will remain at \$1.98 billion. GAAP net income guidance is \$630 million, with GAAP earnings per share of \$25.60. Non-GAAP net income guidance is \$718 million, with non-GAAP earnings per share of \$29.15.

Before we take questions, I'd like to discuss the interim FHFA decision and how we are engaging with the industry. First, I'd like to emphasize that the FICO score is the industry standard measure of consumer credits in the US.

The FICO score is the backbone of safety and soundness in the mortgage industry. Over the last 30 years, the FICO Score has fundamentally transformed the mortgage industry, enhanced ability and liquidity in secondary markets, standardizing credit evaluation for investors, expanding fair and objective access to credit, empowering cost-effective and sustainable homeownership for Americans.

FICO scores are used across the US and internationally for more than just mortgages. In the US, 99% of all FICO scores are freely chosen by market participants outside the mortgage market. In the non-conforming mortgage market, FICO is also widely used.

Classic FICO was specified over 20 years ago for use by the GSEs, they were publicly to companies, and before the FHFA even existed. As the mortgage store standard, thousands of industry participants use models, incorporating classic FICO.

FICO scores are critically relied on throughout the mortgage credit ecosystem. In mortgage insurance, in underwriting and pricing models, in investor credit risk and prepayment models, in models used by the GSEs and those used by mortgage insurers, by investors and prudential regulators for capital requirements and by credit rating agencies for mortgage-backed securities ratings.

Therefore, classic FICO is critical to driving investor pricing of mortgage-backed securities and ultimately, the cost consumers pay. Our innovations are best-in-class, including our latest innovation, FICO 10 T, FICO 10 T BNPL and the FICO Score mortgage simulator.

As you all know, FICO 10 T was approved by the FHFA and remains the most predictive general-purpose credit scoring model in the US. While previous FICO Score versions included rental, telco and utility data, FICO 10 T also now includes trended data.

During the process required by the Credit Score Competition Act, the GSEs originally concluded based on predictiveness and accuracy, that FICO 10 T significantly outperforms Vantage Score 4.0. We joined a long-standing industry demand that FHFA released that analysis and the recommendation of each of the GSEs publicly as part of this process and the spirit of transparency and responsible policymaking.

We recently posted a white paper that reached the same conclusion, which can be found on our website. As for lender choice, the FHFA has long rejected the practice because it undermines the safety and soundness of the enterprises and their counterparties, damaging liquidity in the \$12 trillion mortgage industry.

Lender Choice encourages mortgage participants to shop for the most lax score, which drives unavoidable gaming and adverse selection for all risk holders. It creates a race to the bottom by incentivizing score providers to weaken their credit decision criteria to score more consumers and one more business with their score, which will lead to increased costs for consumers.

Lender Choice will result in higher capital requirements from regulators that the holders of mortgage risk will have to bear and American taxpayers will bear significant additional risk. Any initiative to promote competition and ultimately lower cost should include the best score, which is FICO Score 10 T.

FICO Score 10 T superior predictiveness will drive significant loss avoidance savings for market participants and billions of dollars of savings for consumers. Lastly, so long as their tri-merge mandate, coupled with the Credit Bureau's common ownership of Vantage Score, Lender Choice will harm competition rather than foster it because it further entrenches the credit market power.

In speaking to numerous market participants since the FHFA announcement, it's clear there are many significant outstanding questions by the industry. FICO will continue to remain engaged with market participants, the GSEs, the FHFA, FA and other stakeholders.

With that, let me turn this call to Dave, and we'll open up the Q&A session.

David Singleton - Fair Isaac Corp - Vice President of Investor Relations

Thanks, Will. This concludes our prepared remarks. We're now ready to take questions. Operator, please open the lines.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Manav Patnaik with Barclays.

Manav Patnaik - Barclays - Analyst

Thank you. Will, I just want to touch on FICO 10 T again. I think you said you had (inaudible) customers already using it, adding to about \$313 billion, I think, is what you said. I was just wondering how many customers are using it? What is the pipeline for that?

And is it -- do they have to -- I guess what I'm getting at is do they have to upgrade their systems in order to use FICO 10 T? Is another side-by-side workflow at the moment? Just hoping for some color on the speed of adoption if FICO 10 T were to be pushed in the market again?

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

All good questions, Manav. I have to get back to you with the exact number of customers. But I would tell you that the pipeline is strong. There's customers testing it now. There's customers who are using it now. There's a certain amount of retooling required, but it is modest.

Manav Patnaik - Barclays - Analyst

Okay. And then maybe just as a follow-up, for the insurance core product that had -- the renewal this quarter, can you just remind us what that is and if there's a bunch of these that could occur over time? Or is this a one-off? Just anything --

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

I think -- yeah, Manav, this is Steve. I'd say that's a one-off. We have some insurers that use FICO scores in their underwriting processes, and this was just a license deal over a multiyear that we claim in the quarter that we side, is kind of a one-off.

Manav Patnaik - Barclays - Analyst

Okay. Thank you guys.

Operator

Jason Haas with Wells Fargo.

Jason Haas - Wells Fargo Securities LLC - Analyst

Hey, good afternoon, and thanks for taking my questions. I'm curious following FHFA announcement, if you've seen any lenders starting over to Vantage Score. Curious if you can describe maybe some of the technological challenges that they may face along the way if that something you've heard of. Thank you.

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

We are not aware of anyone moving to Vantage Score since the announcement. There are significant challenges kind of at every step of the way. With the FICO score, which has been in place now for 20 years, virtually every participant in the industry has built models and infrastructure around score.

It's the only score that has actually been in use and therefore, for which we have data going through a full economic cycle, including 2008, the downturn. And so any time you make any kind of a move away from that, you have to think what are the implications for remodeling.

And I'm talking about everything from consumers to mortgage originators to lenders, to the government sponsored entities, to Fannie and Freddie. And on downstream to the securitization market, the mortgage-backed securities, players and the mortgage insurers, CTI and ultimately, the prudential regulators.

All of these participants are nearly all of them have models that are built and have the risk assessment understood around FICO -- the FICO score. And so it's not a simple thing to just swap three digits out, and swap new three digits in. It really isn't that simple.

So I would say there is significant obstacles. And I think that's why the industry is -- has a lot of concerns and is thinking through under what circumstances how it could work.

Jason Haas - Wells Fargo Securities LLC - Analyst

Thank you. That's very helpful explanation. In light of that, is there any change in terms of how you're thinking about where you can take mortgage score prices over time given it's been years where the pricing of what you charge for the mortgage score is beneath the value that is providing to the ecosystem. So is there any change in the thought about how you can normalize that going forward?

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

I think probably everyone on this call is curious of what's FICO's pricing strategy going forward in light of some of the pronouncements from the FHFA. Here's what I would say to you. But first of all, no decisions have been made. We make our decisions about pricing towards the end of our fiscal year and they go effective Jan 1 of the subsequent year. So it's early days, (inaudible)

What I would say is that we continue to believe that there's a pretty big value gap between what we charge and the value that we provide. And so we're always looking at how we're going to close that gap, and we don't want to do it in a reckless way. We don't want to do it in a rapid way.

We want to do it in a very understandable, predictable way so that the people affected can budget for it and see where it's going. And so we continue to be committed to that philosophy on price change. I would just say, I am not sure how much different the world is today after these

pronouncements because we have been competing with Vantage Score virtually everywhere for the last 15 years and we remain the industry standard for all kinds of good reasons.

So obviously, mortgage is important business for us, and a lot of people focus on mortgage pricing. But we welcome competition. And at some level, we go about running our business is unchanged.

Jason Haas - Wells Fargo Securities LLC - Analyst

That's very helpful. Thank you.

Operator

Simon Clinch with Rothschild & Company Redburn.

Simon Clinch - Redburn - Analyst

Hi, well, thanks for taking my question. I was wondering maybe if you could expand a little bit more on Jason's last question actually, but more in terms of your approach to engaging with regulators right now? And how you're thinking about what is the best pathway of that engagement for the benefit of FICO shareholders and the industry? And has any of that -- has that approach changed at all?

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

Well, so we have always been relatively close to the people at FHFA and at the GSEs at Fannie and Freddie because they rely on our data, they build models around the FICO score. They are interested in the innovations coming along.

And frankly, we've just been through a multiyear process in which they were deeply involved in evaluating the benefits of FICO Score 10 T. And so those relationships are in place and the communication is there. And I would imagine that would continue.

With respect to other industry participants, I believe that there's a lot of industry input still to come on the latest commendations because we went through this multi process, with a lot of industry input, with all kinds of evaluation and analysis.

And this is a fairly rapid reversal of the conclusions that process brought us to. And so I think quite a few members of the industry have been -- participants in the industry have been taken a little bit by surprise. But I'm confident that given the importance of safety and soundness in the industry, and the importance of the mortgage market in the United States that rash things will not occur, but that careful, thoughtful, measured analysis and evaluation will occur.

And so some of the problems that we've been pointing out around gaming and adverse selection and risk to safety and soundness. I don't imagine that those issues will be ignored. I imagine that they have to be wrestled with and evaluated. And so we participated in that. But frankly, it's not just a FICO thing. It's really the whole industry.

Simon Clinch - Redburn - Analyst

Yeah, I appreciate that. That's very useful. Thank you. Just as a follow-on question then. I mean, just theoretically, if -- how should we think about the value gap potential in your other categories outside of mortgages and the ability for those areas, those segments to take on the heavy lifting, so if pricing and mortgages were to slow down compared to what we've been used to.

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

Every year, we look at everything. We do billions and billions and billions of scores per year. And each year, as we think through our growth strategy, we think about different parts of the market. And that continues this year as it has in every year over the last decade. So again, no real change in terms of do we look broadly across the portfolio just to see where the growth opportunities are. So I think that's largely the same.

Simon Clinch - Redburn - Analyst

Okay. Great. Thank you very much.

Operator

Faiza Alwy with Deutsche Bank.

Faiza Alwy - Deutsche Bank AG - Analyst

Yes, hi, thank you. I wanted to ask about the software business. Maybe how is the feedback then on the next-generation launch of the platform. And how do you expect sort of bookings to trend from here and just what the general demand environment is like?

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

We continue to grow nicely. We continue to have our customers very interested in the platform. We're bringing them on. I think that we are -- we're not completely immune to the care that goes into IT spend right now. But we feel pretty good.

We're not growing at the rate we were over the last 40 quarters. We're more like the rate we had in the last several quarters. I continue to hope that, that will tick upward. I mean, I would love to see us growing in the 20s in the platform. And our bookings feel pretty good. And so from a visibility standpoint, we think that's potentially achievable. So we'll have to see.

Faiza Alwy - Deutsche Bank AG - Analyst

Okay. Got it. And then just wanted to ask about the auto B2B origination revenue, which saw a nice acceleration from last quarter. And I'm curious if there was -- so if you saw higher volumes, maybe it was customer mix. I know you took some pricing. So maybe talk about some of the feedback that you've gotten on the pricing to that acceleration and what led to that acceleration and growth.

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

Yeah, I mean there's -- most of it related to pricing. Obviously, we had some pricing there. There was a little bit of growth on the volume side as well, but most related to pricing. I don't think it was a significant shift in mix. I mean we have seen in the past, sometimes the mix shift between the different tiering levels can have an impact. But there wasn't a lot of that. It's primarily just a combination of price and volume.

Faiza Alwy - Deutsche Bank AG - Analyst

All right. Thank you.

Operator

George Tong with Goldman Sachs.

George Tong - *Goldman Sachs - Analyst*

Hi, thanks. Good afternoon. Given the FHFA's decision to move to a Lender Choice for mortgages, how much of a priority is it to drive industry migration to FICO 10 T, which could be facilitated by the release of historical benchmarking data? Or would you rather see the industry stay with classic FICO to minimize disruption?

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

I think that's going to be the decision made by the industry. FICO 10 T is available, it's been approved by the FHFA. There are lenders using it today. And we imagine that will continue. It really is far and away the most predictive score.

And so if you're in the risk business, if you actually retain any kind of risk, you care about these things. And so I think that leads us to a pretty bright and rosy future for 10 T. That said, there's a lot of reasons why in parts of the industry, we're in 10 T -- we are in FICO cloud, what we call FICO Classic.

And that's likely to continue for quite a long time. I mean that is a highly tuned optimized score developed over 20 years with 20 years of models built around it, with all the historical data that you could possibly need.

And so I don't imagine the switch away from FICO Classic will be rapid. But to the extent that you have people who bear the risk, who care of the risk, 10 T is a pretty good alternative.

George Tong - *Goldman Sachs - Analyst*

Got it. That's helpful. And then switching to the software side. If you look at FICO platform ARR growth that accelerated a bit to 18% in the quarter, can you elaborate on some of the trends that you're seeing there with respect to client adoption -- new client adoption and client consumption trends that can drive further growth acceleration?

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

We have always believed what would happen with the platform adoption is we would initially penetrate a large number of the top 300 global institutions. And then the growth would shift -- as a percent of the total, the growth would shift more to expand. So we are very much a land-and-expand strategy.

And over the last several years, as you know, we've now penetrated roughly half of the top 300 financial institutions globally. And so it's not surprising to us. It's exactly per our plan that the shift is now coming more in the direction of a bit more expand business and not quite as much land business.

That's not to say that we don't win new customers we are. But the customers who've been using it for a while, they very much expand their usage. And so we're seeing more revenue there.

George Tong - *Goldman Sachs - Analyst*

Very helpful. Thank you.

Operator

Surinder Thind with Jefferies.

Surinder Thind - Jefferies LLC - Analyst

Thank you. Just building upon some of the FICO 10 T questions. Will, can you talk about for the clients that have been willing to adopt the score. I assume it's mostly in the non-conforming market. Can you talk about the -- I guess, the decision in the sense that is all of the data out there that you need to make a decision given that obviously, you're asking for public release of some of the benchmarking data, like why upgrade to 10 T now versus maybe waiting a little bit?

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

Well, we would like to see the FHFA and the GSEs release the data in the evaluation process that led to 10 T being identified as the most predictive score in the market. We've obviously done that analysis independently, and we've put it into a white paper, which you can find on our website. There are some pretty significant advantages to 10 T. It's more predictive. It has higher KS.

What does that translate into? It translates into lower credit defaults than you would with classic FICO and lower credit defaults that you would get with Vantage Score. So there's a real benefit that comes with it. And yes, it's a new score, and so it takes time to adopt. And there's all the transition issues that go with that.

Surinder Thind - Jefferies LLC - Analyst

That's helpful. And then just following up in terms of the next generation of the cycle platform in GA in the second half here, can you talk about the update process. So if you're an existing FICO platform customer, what is the update process? And what is the benefit of moving to the new platform at this point?

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

I think that the transition for existing platform customers to the new FICO platform will be very straightforward. Seamless is probably an overstatement, but straightforward because we plan for it. And it's -- that will work nicely.

I think that the benefits of the platform are more realized around the returns to scale that we get. If we have a lower cost structure in serving our customers, that will translate into lower pricing for them. And I think those are some of the benefits. There's definitely a cost benefit.

And then the new platform has a lot of new features and ease of use. And so I think you'll see some of that. I think our customers' existing platform customers and new ones will be delighted with the new platform.

Surinder Thind - Jefferies LLC - Analyst

Thank you.

Operator

Ashish Sabadra with RBC Capital Markets.

Ashish Sabadra - RBC Capital Markets Inc - Analyst

Thanks for taking my question. I just wanted to drill down on opportunities for using FICO scores at having more use cases for FICO scores or using it in more places within the processes where it may currently not be used, like, for example, securitization market where they may not have access to real-time FICO score. So is that an opportunity? How should we think about that opportunity presenting itself. Thanks.

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

Well, thank you for that question. We're always looking for ways to provide more value and benefit to our customers and to potential new customers. And an obvious place for us to do it is to give the securitization market, the downstream investors the ability to refresh the score.

And so today, the pricing and models are typically built around the score that was used when the mortgage loan was originated. But over time, that becomes a stale score, over time, that's -- it's frozen, it's not dynamic. And so we are very much looking at how we would be able to deliver to the securitization market capability to refresh those scores.

Ashish Sabadra - RBC Capital Markets Inc - Analyst

That's very helpful color. And then going back to the mortgage score question. The long conforming market doesn't really -- are not bounded by the GSE requirements. However, most of them continue to use FICO or FICO 10 T. And so I was just wondering what are the moats around the business, and then an event that if there is a lender's choice for the GSE, could that affect the demand of GSE market. Thanks.

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

Well, it's funny to help people talk about moats around the FICO business. I mean what is the moat really. The moat is that we have the most predictive scope. That's the moat. I mean, if you're in the business of measuring risk, and you benefit when you reduce the risk and you suffer when the risk comes home to roost, you want the most predictive score. You want to avoid as much credit default as possible.

That's what you achieved with FICO 10 T. And with respect to FICO classic, I would say, it's also very, very good. And it's not very good for a 20 year old score, it's very, very good in absolute terms.

Not as good as FICO 10 T, but still very, very good, and has the advantage of having been the backbone of the system for all this time. And so it's extremely well understood, all the models, everything is optimized around it. And that's truly the moat. It's not some government conferred monopoly. That's not what makes us successful.

Ashish Sabadra - RBC Capital Markets Inc - Analyst

That's great. Thanks, Will.

Operator

Kyle Peterson with Needham.

Kyle Peterson - Needham & Company LLC - Analyst

Great. Good afternoon guys. Appreciate you taking the question. I want to start off with your thoughts on capital allocation. It does seem like you guys have kind of stepped up the pace of the buyback, it seems like things are dislocated here.

Given where the stock is and what your cash flow is like now, do you guys in state you being able to kind of continue to buy back at an accelerated pace? Or how are you guys looking at capital allocation, specifically buyback versus debt pay down at these levels?

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Well, thanks for that. We've always believed that we should run FICO with kind of an optimal capital structure and not have on hand more cash than we need and we've historically returned it through share buyback, and I would expect that will continue.

We've obviously done a lot in the last quarter, but we've done a lot in the last 13 years, and that will continue. We say that we're not market timers. We target spending our free cash flow on stock buyback each year.

But over a period of time, that results in the leverage dropping to levels that are unacceptably low. And so periodically, we dial up the amount we buy back to maintain kind of a healthy level of leverage somewhere between 2 and 3 times.

We also are mindful of corrections in the stock price. So when you see things like what have -- what's occurred over the last couple of months, that represents a big opportunity. And so do we lean into that? Of course, we do.

And you can see it in the buyback pace that we had over the last quarter. We have a lot of dry powder, a lot of capacity. And although we're not going to spend it all in one week, we're buyers at this level.

Steven Weber - *Fair Isaac Corp - Chief Financial Officer, Executive Vice President*

Yeah, and Kyle, I would just add, if you look at what our leverage is today, it's still pretty modest by historical standards. It's even down a little bit from last quarter. So there's a lot of opportunity for us.

Kyle Peterson - *Needham & Company LLC - Analyst*

Okay. Okay. Yeah, that is really helpful. And then I guess just a little bit on how you guys are kind of thinking about the environment right now. Are you guys still kind of thinking -- has anything changed, I guess, like I would say, whether it's in terms of (technical difficulty)

Steven Weber - *Fair Isaac Corp - Chief Financial Officer, Executive Vice President*

Kyle, we lost you.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Yeah, I think we lost Kyle. We lost the second half of that question.

David Singleton - *Fair Isaac Corp - Vice President of Investor Relations*

Operator, we can just go to the next question, and we'll see if Kyle jumps back in the line.

Operator

Owen Lau with Oppenheimer.

Owen Lau - *Oppenheimer & Co Inc - Analyst*

Good afternoon and thank you for taking my question. So follow-up on that moat question, Will, could you please talk about other markets such as credit card, auto and personal loan when there's no requirement from anyone? Do you see any Vantage Scores gaining any market shares?

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

No, no. It's a good question, and we do not see any traction of Vantage Scores gaining market share. As I mentioned earlier, we've been competing with Vantage Scores for a very long time, well over a decade. And we don't -- we have not experienced any kind of significant share loss advantage.

And I would say that's because of the two things that we talked about before. One is that we have the best score and then second is that there's a benefit to working with the industry standard, which is FICO.

Owen Lau - *Oppenheimer & Co Inc - Analyst*

Got it. That's helpful. Just lenders were to move to Vantage Score, usually how long does it take for lenders to switch over? Can I do it within one or two years? Or it will take longer than that? Thanks.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

That's a question no one can answer because it hasn't happened.

Owen Lau - *Oppenheimer & Co Inc - Analyst*

All right, good. Thanks a lot.

Operator

Jeff Meuler with Baird.

Jeffrey Meuler - *Robert W. Baird & Co Inc - Analyst*

Yeah, thank you. Will, what do you told us kind of the next steps for 10 T usage for conforming? Or what are you getting asked to do from your end to make that happen?

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Well, I think it's up to the FHFA to decide to implement and I think from an industry standpoint, you don't want to -- I don't think you want to stagger implementations of multiple scores because it requires much more complicated retooling on the part of the industry.

So I would imagine that we're going to get to a point where 10 T is not but implemented sooner rather than later. So we'll see. We're in a conversation with the FHFA about how to make that happen.

Jeffrey Meuler - Robert W. Baird & Co Inc - Analyst

Okay. Thank you.

Operator

Ryan Griffin with BMO Capital Markets.

Ryan Griffin - BMO Capital Markets - Analyst

Hey, thanks a lot. You made a comment on ACV bookings pipeline being stronger than last year. I was just wondering what's driving that and how we should expect that to flow through to bookings. Thank you.

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

I think a lot of it's coming out of FICO World, we saw a lot -- we've developed a lot of new functionalities as we'll talk about, and there's a lot of excitement at FICO World. So it's -- with that coming online, it's strengthen our pipeline, we see a lot of people that see the advantage of the current platform and with the new version coming online, they're excited about that.

So we think there's just a lot of industry understanding it more and having more proof cases, with FICO World, we had a lot of companies get up and talk about how they've been successfully using the platform. So you end up at a point in time where you could start seeing some momentum, and that's what we're seeing now.

Ryan Griffin - BMO Capital Markets - Analyst

Great, thank you. And then just on the Amazon partnership. Wondering what the mechanics are for that and how you expect that to impact the distribution model and bookings going forward. Thank you.

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

A little early to say. I mean, we're optimistic. Every one of these things helps us, but we'll just have to see what plays out.

Operator

Alexander Hess with JPMorgan.

Alexander Hess - JPMorgan Chase & Co - Analyst

Hey guys, just want to piggyback off, I think it was Jeff and George's question from earlier. We're about a year moved from Vantage Score providing the loan level data set to the banks? And my understanding was that was a prerequisite for them getting their score approved.

Are you guys for some reason hesitant to provide that data to the banks? Or is the FHFA -- is there some sort of negotiating with the FHFA on what that looks like. I'm just not quite clear as to why FICO 10 T doesn't have a data set like that in the market.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

We are working with them to get the data out.

Alexander Hess - *JPMorgan Chase & Co - Analyst*

Got it. That's super helpful. And then just maybe as a maintenance question. I think you guys have said in the past that the mortgage scores are less than 1% of scores, presumably GSE and non-GSE channels. Can you sort of give us a sense of how many scores are being generated on an annualized basis now? And where you've seen particularly strong adoption in volumes and over the last, say, two, three years?

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Are you talking about mortgage or across the board?

Alexander Hess - *JPMorgan Chase & Co - Analyst*

No, I'm talking across the board, excuse me.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Across the board. Mortgage volumes across the board are down from the peak, not down as much as in mortgage elsewhere, but down some, which gives us a lot of optimism about volume growth going forward, particularly in a declining rate environment if that ever happens. So I think there's upside there. I'm not sure exactly what you're getting at.

David Singleton - *Fair Isaac Corp - Vice President of Investor Relations*

His question is about adoption of scores just in general, like credit card or personal loans, places and what have we seen over the last few years in terms of --

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Our scores are being used more widely than ever. We introduced new scores. We have all kinds of new scores based on alternative data. We talked about the BNPL score. We have scores that are built around telco and utility payment data of the Equifax NCTUE plus database.

So we're finding adoption of additional scores. And scores are being used more frequently than they were in the past in things like account management. So it's not just like the scores volume goes up and down with GDP. I think that it's fair to say that we're finding new uses and expanding market for scores.

Alexander Hess - *JPMorgan Chase & Co - Analyst*

Great, that's super helpful. Thank you so much.

Operator

Scott Wurtzel with Wolfe Research.

Scott Wurtzel - *Wolfe Research LLC - Analyst*

Hey, good afternoon guys, and thank you for taking my question. I just had one on the pricing side in light of this -- all the Vantage and FHFA stuff. I mean, is there a world where you would potentially consider having different pricing on conforming versus non-conforming mortgage given your share in the non-conforming market relative to Vantage right now and the potential uncertainty on what happens in the conforming market? Thanks.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

Yeah, I think that everything is always under review. I mean there are many, many other pricing models besides the ones that we've used historically. And so we look at everything. And there probably are models that we don't use that would be better for everybody. It would be better for the industry.

But again, because it's such a big and important industry, you don't make any kind of changes rationally. You study them and you figure out whether it's going to work. And the last thing we want is unforeseen consequences.

And so although we've evaluated many, many other pricing models, and obviously, that includes pricing differently in different markets, but it also goes structure of how we price and how the IP is used and how the IP is monetized. It's -- we look at it all the time, but I think whatever we discover, we discovered some pretty interesting things, we think about implementing with quite a big measure of caution.

Scott Wurtzel - *Wolfe Research LLC - Analyst*

Great, thanks guys.

Operator

Matthew O'Neill with FT Partners.

Matthew O'Neill - *FT Partners - Analyst*

Yeah, hi, thanks so much. I'll try to avoid subsequent pricing question here. So I was wondering, I don't think I missed it, but would you be willing to give us the numbers around the one-time license renewal just for modeling purposes going forward?

Steven Weber - *Fair Isaac Corp - Chief Financial Officer, Executive Vice President*

No. I mean we don't separate that out. But I mean you can look at our overall numbers in terms of how much point in time revenue we had in the Q. That's included in that number. so you can kind of look at it that way. I mean it's a significant number for this quarter.

Matthew O'Neill - *FT Partners - Analyst*

Got it. Thanks. And I guess just as a follow-up more broadly on guidance. What's implied for fourth quarter versus where consensus is today? There's a little bit of a delta there. Obviously, I know you're not guiding to consensus.

Just curious how you think about the opportunities to outperform in the last fiscal quarter. And what could go right or what degree of macro conservatism is built into the remainder of the FY guide here. Thank you.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

We only got two months to go. So there's not a whole lot of uncertainty. We guided what we guided. We're pretty confident in that. And if I were to say something else, then I wouldn't really be guidance anymore. So that's the number we put out there. And again, when we guide for the full year, there's a lot of things that can happen. But when you're only guiding with a couple of months left, there's not nearly as much uncertainty.

Matthew O'Neill - *FT Partners - Analyst*

Totally fair. Thanks a lot.

Operator

Craig Huber with Huber Research Partners.

Craig Huber - *Huber Research Partners LLC - Equity Analyst*

Great, thank you. Couple of questions if I could ask. In our scores segment here, I just wanted to understand a little bit better about the expense growth here year-over-year about 39%, up about 23%, 24% sequentially. Is there any extra maybe internal investment spending going on there that you can talk about publicly? Just curious why it's up so much. I thought this was largely a pretty fixed cost model here, but --

Steven Weber - *Fair Isaac Corp - Chief Financial Officer, Executive Vice President*

Okay. So you just ask that again, which you had about revenue or the expense?

Craig Huber - *Huber Research Partners LLC - Equity Analyst*

The expenses within your scores segment are up, as you know, roughly 39% year-over-year or 23%, 24% sequential.

William Lansing - *Fair Isaac Corp - Chief Executive Officer, Director*

The biggest piece of expense in our scores business is in our B2C business, where we actually have a cost of goods -- a higher cost of goods sold, we have to pay for credit file and data. And so as that grows, you're going to see a little bit of movement down the expense side.

Apart from that, I can tell you that we are -- we've hired more people, and we're doing a lot more innovation there than ever before. And so that also drives a bit of expense, but not enough to move the needle dramatically.

Steven Weber - *Fair Isaac Corp - Chief Financial Officer, Executive Vice President*

Yeah. And I think one of the things you'll see there is that it's a relatively low cost model. So when you have some additional incremental cost, that can skew the numbers, again, because the margins are so high. But it is a fairly fixed cost model, except for the B2C (inaudible) which Will mentioned.

Craig Huber - *Huber Research Partners LLC - Equity Analyst*

But do you guys think, in general, this new expense level in scores here all else being equal in the environment and so forth that you might repeat that again in the subsequent quarters? Or will it dip back down later?

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

Yeah, we're probably at a higher level. Again, it's not all that significant in the scheme of things. But I mean, it's got to say a little bit. We're bringing some more money into marketing, particularly on the B2C side. So we see some opportunities there that we're pursuing and that's what driving the biggest portion of it.

Again, because we think -- we did some testing on it. I think we talked about this in previous quarters. We did some testing on this last year, and we saw there's a pretty big payback on this. So we're willing to invest a little more heavily in this because it drives some pretty good growth on the B2C side.

Craig Huber - Huber Research Partners LLC - Equity Analyst

And then my unrelated question, please. Can you share with us what you think your market share is for FICO scores in auto, credit card, say, and personal loans and also non-conforming mortgages. What do you think is your market share?

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

Yeah. I mean there's been external third-party analysis on us. And it's in the mid-90s probably. If you look at securitizations that take place, it's very high. It's in the high 90% range. So it's hard to come up with exact numbers on this because it's not really reported anywhere. But from third-party that have done actual work on this, it's a pretty high number.

Craig Huber - Huber Research Partners LLC - Equity Analyst

Great. Thank you both.

Operator

Kevin McVeigh with UBS.

Kevin McVeigh - UBS - Analyst

Great, thanks so much. I wanted to just see if you could help us reconcile, had a pretty good beat in the quarter and reaffirmed the guidance for the full year. Any puts and takes on kind of what the reform was as opposed to the beat in the quarter -- with the increase, I'm sorry.

The amount of the raise on the guidance relative to the beat looks like, you define more than you raised it conservatism or anything to kind of call out just based on where the quarter on versus how much the full year guidance was increased.

Steven Weber - Fair Isaac Corp - Chief Financial Officer, Executive Vice President

Yeah. Well, I mean, we did have -- we talked about in the script, we've got some one-time expenses that we're going to have in the fourth quarter. And there's some of that, that probably wasn't in -- earlier in the year, there's some things -- as we get to the end of the year, we can take some charges and we've done it in the past. And I think we'll probably be doing some of that this year as well. So that's probably the delta.

Kevin McVeigh - UBS - Analyst

That's super helpful. And then just with all the questions, I know the regulation is so hard to frame, but are there any goalposts in terms of timing or just events that you could kind of point us to? Or there may just be some clarification whether it's out of the FHFA order border organization just as we're thinking about expectations over the course of the year? I mean just given it feels like there's (technical difficulty)

William Lansing - Fair Isaac Corp - Chief Executive Officer, Director

No, I think if we take where we are today as the status quo, which is what it is, I think you're looking at years to figure out how market share settles out because it's not easy to switch and because we have a better score. So TBD under what circumstances and whether at all, there's share shift. But we'll see. But it won't happen fast. It will take time.

Kevin McVeigh - UBS - Analyst

Thank you.

Operator

Thank you. And I'm showing no further questions at this time. I will now turn the call back to David for any final comments.

David Singleton - Fair Isaac Corp - Vice President of Investor Relations

Yeah, thanks very much. I just want to circle back on I've asked the question at the beginning around the number of FICO 10 T lenders and attraction to markets. I think it's important to remind the audience, lenders use FICO 10 T for a lot of use cases, underwriting, loan production, execution, servicing.

We have over 30 mortgage lenders today using FICO 10 T. Some of those lenders use it for securitization, they're securitizing with FICO 10 T already. And the MCT is a platform where the MBS market flows through and they also have adopted FICO 10 T. So we have a lot of places where FICO 10 T exists in the ecosystem and the traction is very strong. So thanks, everyone, for the call. Appreciate it.

Operator

This concludes today's conference call. Thank you for your participation, and you may now disconnect. Goodbye.

DISCLAIMER

Refinitiv reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES REFINITIV OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2025, Refinitiv. All Rights Reserved.