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EDITED TRANSCRIPT

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the fourth-quarter 2025 FICO earnings conference Call. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Dave Singleton, please go ahead.

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

Good afternoon, and thank you for attending FICO's fourth-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 describes 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. This includes an FY26 guidance reconciliation of GAAP to non-GAAP earnings, which are adjusted for items such as stock-based compensation and excess tax benefit. This reconciliation as part of the earnings release included an Exhibit 99.1 to our 8-K, which we filed with the SEC under Item 2.02 called results of operations and financials.

The earnings release and Regulation G schedule are available on the Investor Relations page of the company's website at fico.com or on the SEC's website at sec.gov. A replay of this webcast will be available through November 5, 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 fourth-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.

Today, I'll talk about this quarter's results and our guidance for fiscal '26. We had another fantastic year. We exceeded fiscal '25 guidance on all metrics and delivered record annual free cash flow. As shown on page 2 of the fourth quarter financial highlights, we reported Q4 revenues of \$516 million, up 14% over last year. For the full fiscal year, we delivered \$1.991 billion, up 16% versus the prior year.

In our Software segment, we delivered \$204 million in Q4 revenues. While performance at the segment level was flat year over year, results included 17% platform revenue growth driven by FICO platform and 7% decline in non-platform revenue due to the end-of-life legacy products and timing of recurring revenue within the quarter.

For the fiscal year, we delivered \$822 million in revenue, up 3% from last year. We have strong momentum in our software business, driven by customer adoption of FICO platform. At FICO World, we announced upcoming general availability of next-generation FICO platform, enterprise fraud solution natively on FICO platform, and the groundbreaking FICO marketplace.

Our R&D investments are directly tied to driving real value for our customers. These innovations bring connected end-to-end customer experience, including new use cases to the market. They enable smarter explainable outcomes, improve performance and improve speed of deployment, and yield better customer ROI.

This quarter, we announced the general availability of FICO-focused foundation model for financial services, what we call FICO FFM. FICO FFM consists of FICO-focused language model, which is FICO FLM; and FICO focused sequence model, which is FICO FSM. It's a domain data and problem-specific Gen AI model for financial services that delivers accurate and auditable outcomes.

FICO FFM enables enterprises to use small language models built for their specific business problems, significantly helping to mitigate hallucinations and provide transparency, auditability, and adaptability. FICO FFM achieves improved accuracy and cost efficiencies compared to conventional Gen AI models. For example, FICO FFM results in more than 35% left in world-class transaction analytic models in areas such as fraud detection, while requiring up to 1,000 times fewer resources compared to conventional Gen AI models.

In fiscal '26, we plan to advance our direct and indirect distribution strategy and invest to capture market opportunities emerging from these innovations. Steve will discuss that further later on. As a reminder, analytic innovation and intellectual property at FICO are protected by our patent portfolio of over 230 issued patents and nearly 80 pending applications. Many of these issued and pending patents are AI-specific and reinforce FICO's position at the forefront of responsible AI development.

Turning to Scores. In our Scores segment, our fourth quarter revenues were \$312 million, up 25% versus the prior year. While B2B scores were the key driver of growth, we also saw continued encouraging growth in B2C scores. For the full year, our revenues were \$1.169 billion, up 27% versus last year, and that was materially driven by B2B scores.

The FICO Score used by 90% of top US lenders continues to be the standard measure of consumer credit risk in the US. Long-term model stability is a critical consideration for lenders in determining which credit scoring model to use for originations. FICO Scores are used by lenders across consumer credit sectors because they're time tested, trusted, reliable, and they are the independent standard around the world. In fact, FICO remains the only independent analytics provider and the only score with known predictable performance through a complete economic cycle, including the stressful period of the great recession.

FICO Scores continue to be widely used and critically relied on throughout the consumer credit ecosystem. That includes cards, personal loans, auto lending and mortgages. The FICO Score was established as an industry standard and was freely chosen by mortgage market participants long before the GSE selected classic FICO as the credit score for guaranteeing conforming mortgages.

With no government guarantee outside of conforming mortgages, market participants seek out the most predictive score, which is often one of our recent innovations, like FICO 8, FICO Auto 10 and FICO 10T. In fact, bureaus have provided free Vantage scores for years outside of mortgage, yet FICO has continued to successfully compete and win business in those areas.

Our scores remain the standard for use in mortgage underwriting and pricing in investor credit risk and prepayment models, in capital requirements, and by credit rating agencies for mortgage-backed securities ratings. Classic FICO is critical to driving investor pricing of mortgage-back to another securities and ultimately, the cost consumers pay in the mortgage industry.

We recently announced our FICO Mortgage Direct License Program, with a view to driving competition, transparency, and cost savings in mortgage, while aligning with calls from policymakers and industry leaders to modernize credit infrastructure and promote affordability, liquidity and access in the \$12 trillion US mortgage market.

In the short time since our announcement, we've seen overwhelming interest in the FICO Mortgage Direct License Program. As we announced today, we entered into a multi-year direct license and distribution agreement with Xactus, the largest credit verification and tri-merge provider of FICO Scores.

In addition, we're actively engaged with resellers representing about 90% of mortgage volume, including the largest tri-merge resellers as well as technology platform providers, who serve the smaller tri-merge resellers to enable our mortgage direct program as quickly and efficiently as possible. We've already provided our FICO Score scoring software for the mortgage direct license program software to the top 4 resellers along with several key platform providers.

With our FICO Mortgage Direct License Program, tri-merge resellers have the option to calculate and distribute FICO Scores directly to their customers, eliminating reliance on the three nationwide credit bureaus. The calculation of the FICO Score and the packaging to create a tri-merge bundle does not add incremental complexity or risk for tri-merge resellers.

The tri-merge resellers have the infrastructure and processes to package data today as this is their core business. The FICO Score algorithm that will now be used by the resellers under our direct program is the same model as what is currently installed at the bureaus today. The underlying data used by resellers and bureaus in the FICO Score models is the very same data.

The data format for the FICO direct license program is the very same data format processed by tri-merge resellers today that lenders use today and that's required in the conforming mortgage market by Freddie and Fannie today. In fact, it's the same format we use in our partnership with the tri-merge resellers for the FICO Score mortgage simulator, which is in the market today.

Our FICO mortgage direct license program provides optionality to the market. We offer two alternative pricing models, ahistorical per-score pricing model and a new performance pricing model. The performance pricing model was built on successful mortgage funding and answers the call of

industry participants to provide optionality in our pricing models. We anticipate resellers evaluating lenders throughput rates to determine, which FICO Score pricing models provides lenders with the most savings.

From a pricing perspective, the FICO Score for mortgage originations was \$4.95 per score in 2025. The bureaus market is priced up on average to \$10 per score. In 2026, under the FICO Direct License Program, lenders have a choice of either the performance model at \$4.95 per score plus a funding fee at closing or the per score model at \$10 per score.

The performance model yielded a 50% reduction in average per score fees to what resellers paid for FICO Scores in 2025. And the per-score model is on average the same price as the resellers paid for FICO Scores in 2025. Lenders obviously have a lot to consider when evaluating which credit scores to adopt, and that decision considers factors well beyond the upfront cost of the credit scores.

Classic FICO is still the only score used for conforming mortgages guaranteed by the GSE. It is the only score that has performance data through the Great Recession in 2008, 2009. It's the only score that's leveraged throughout our secondary mortgage markets regardless of GSE guarantees predictiveness of the score matters.

Recent independent studies by Milliman, Urban Institute, AEI Housing Center, and others have found Classic FICO, a score developed 20 years ago to perform similarly or on a par with or at times to outperform they recently developed managed Score 4.

Our latest score, FICO 10T, is the most predictive and inclusive credit scoring model on the market. We continue to see growing momentum and adoption of FICO Score 10T. There's a large industry efficiency benefit in testing FICO 10T and VantageScore for simultaneously, and we expect FICO Score 10T to be made available for implementation at the GSEs. FICO 10T builds upon FICO's decades as a trusted pillar of the mortgage ecosystem using advanced modeling techniques and comprehensive consumer financial data, including rental payments, the set data that we at FICO have used in our credit score model since 2015.

In addition to rental data, utility data, and telco data, by leveraging trended credit data, FICO Score 10T analyzes borrower behavior over time, which allows lenders using the score to gain deeper insights into prospective borrowers, helping them to make more precise lending decisions. Our latest score is a meaningful step forward in credit risk assessment.

FICO 10T offers significant improvements in predictive accuracy combined with a focus on fairness and model stability offering tremendous benefits for lenders, investors, and borrowers alike. Earlier this year, our team at FICO published a comprehensive white paper demonstrating our FICO Score 10T offer significant improvement in predictive accuracy over our other models, including both VantageScore and Classic FICO. The link to that white paper and other studies mentioned in today's earnings call can be found in our Investor Relations presentation.

Specifically, FICO Score 10T identified 18% more defaulters in the critical score decile commonly used for mortgage originations, while VantageScore identified only marginally more than classic FICO. FICO Score 10T also enables a 5% increase in mortgage originations without taking on additional credit risk. Vantage 4 claims is far more consumers but do so using models that are statistically unsound for predicting risk, for example, scoring using one month of payment history. We by contrast, don't lower our standards.

In 2024, the GSE average credit profile included an average FICO Score of 758. Vantage 4 claims they can score more consumers. But with less than 10% of GSE guaranteed loans below FICO Score 680, this does not result in a material increase in loan qualifications that are guaranteed by the GSEs. In fact, it can actually hinder those who have thin credit profiles from processes that are already in place that are designed to improve no file or thin-file applicants. Make no mistake, we have access to the same data as our competition. What matters is how the data is used to innovate scoring models to yield the best risk prediction.

FICO's decades of experience enable us to innovate better, as shown in the outstanding performance of FICO 10T versus Vantage 4, which can only keep pace, in some cases, can't even do that with the score that we created two decades ago. FICO Score 10T's better performance will drive benefit for not only mortgage insurers and investors but other market participants as well. It will deliver improved mortgage pricing and lower monthly cost for borrowers; it's going to benefit millions of Americans.

To further emphasize this point, the benefits of FICO Score 10T are not hypothetical. In the non-conforming mortgage industry, FICO Score 10T has already been adopted by nearly 40 lenders accounting for more than \$316 billion in annual originations and more than \$1.5 trillion in eligible servicing volume. Most making multi-year commitments to use the FICO Score for mortgage decisions in both the conforming and non-conforming markets.

We're proud of our innovations and ability to adapt to needs of our customers. We're excited about the reception and adoption of our latest offers. I'm going to pass it now over to Steve for further financial details.

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

Thanks, Will, and good afternoon, everyone. We had another good quarter with total quarterly revenues of \$516 million, an increase of 14% over the prior year. As we discussed last quarter, sequential revenue is down due primarily to lower point in time revenues from scores and software licenses as well as seasonality and lower professional services revenues.

Software segment revenues for the quarter were \$204 million, flat versus the prior year. From page 5 of our presentation within that segment, you could see on-premise and SaaS software revenues were flat year-over-year, while professional services declined 5%. We delivered \$822 million in fiscal year revenue, which was up 3% from the year -- from the prior year.

This quarter, 87% of total company revenues were derived from our Americas region, which is the combination of our North America and Latin America regions. Our EMEA region generated 8% of revenues, and the Asia Pacific region delivered 5%.

Score segment revenues for the quarter were \$312 million, up 25% from the prior year. As shown on page 6 of the presentation, B2B revenues were up 29%, primarily attributable to a higher mortgage origination scores unit price.

Sequentially, B2B revenue slightly improved when excluding our prior-quarter multi-year US license renewal on our insurance score product last quarter. Our B2C revenues were up 8% versus the prior year, driven both by our MyFico.com business and our indirect channel partners.

Total Scores revenues were \$1.169 billion, up 27% despite lower than historical mortgage originations volumes driven by persistently high interest rates. Fourth-quarter mortgage originations revenues were up 52% versus the prior year. Mortgage origination revenues accounted for 55% of B2B revenue and 45% of total scores revenue. Auto originations revenues were up 24%, while credit card, personal loan, and other originations revenues were up 7% versus the prior year.

Turning to guidance for '26. Our FY26 revenue guidance assumes software SaaS growth driven mainly by FICO platform and offset by less point-in-time revenue due to fewer non-platform license renewal opportunities and a similar level of annual professional services revenue. For our Scores business, our guidance doesn't anticipate any significant improvement in the macroenvironment.

We also don't expect any loss of market share or any significant volume changes in auto card and personal loan originations. As a reminder, our last quarter contained one material nonrecurring multi-year US license renewal on our insurance score product that we won't see in FY26.

As shown on page 7 of our investor presentation, our total software ARR was \$747 million, a 4% increase over the prior year. Platform ARR was \$263 million, representing 35% of our total Q4 '25 ARR. Platform ARR grew 16% versus the prior year, while non-platform declined 2% to \$484 million this quarter.

Our platform ARR experienced lower performance due to usage reductions from select CCS customers. Non-platform ARR was consistent with the last few quarters. We expect total software ARR to increase in fiscal 2026, reflecting the benefit of recent FICO platform bookings going live.

Our platform lend-and-expand strategy continues to be successful. On page 8, our dollar-based net retention rate in the quarter was 102%. Platform NRR was 112%, while our non-platform NRR 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 \$32.7 million compared to \$22.1 million in the prior year, representing our best quarterly ACV performance in the six years since we began disclosing this metric. On a full-year basis, ACV bookings reached \$102 million, our strongest annual performance over that timeframe.

Expenses for the quarter as shown on page 5 of the financial highlights presentation. Total expense -- operating expenses were \$279 million this quarter versus \$274 million in the prior quarter, a 2% increase. In our prior quarter's prepared remarks, we outlined key factors we expect to contribute to a sequential increase in total expenses. Those factors largely materialized as expected and included \$10.9 million for restructuring, increased interest expense, and increased marketing expenses.

Partially offsetting these factors, stock-based compensation declined in Q4 due to forfeitures. The restructuring I noted was the result of reallocating resources to align with our strategy. For the full year, our expenses were \$1.066 billion versus \$984 million in the prior year, an increase of 8%. Our FY26 guidance assumes a similar year-over-year operating expense growth compared to the prior year.

We maintain our focus on efficiencies and are committed to prioritizing resources to our most strategic initiatives. Investments focused on headcount for distribution and continued development of our FICO platform as well as increased headcount for our scores business and marketing across both sides of the business.

Our non-GAAP operating margin, as shown in our Reg G schedule, was 54% for the quarter compared with 52% in the same quarter last year. We delivered year-over-year non-GAAP operating margin expansion of 210 basis points. Our full-year non-GAAP operating margin was 55%, an improvement of 340 basis points year over year. We reported \$155 million in GAAP net income in the quarter, up 14%; and GAAP earnings of \$6.42 per share, up 18% from the prior year.

Excluding restructuring, GAAP net income would have been \$166 million with an earnings of \$6.76. As reported, for the full fiscal year, we delivered \$652 million in GAAP net income, equating to \$26.54 of earnings per share, up 27% and 30%, respectively. For the quarter, we reported \$187 million in non-GAAP net income, up 15% and non-GAAP earnings per share of \$7.74 per share, up 18% from the prior year. And note, restructuring has added back to the non-GAAP net income, as shown on the Reg G schedule.

For the full fiscal year, we delivered \$734 million in non-GAAP net income equating to \$29.88 of earnings per share, up 23% and 26%, respectively. The effective tax rate for the quarter was 23.4%, and the operating tax rate was 25%. Our full-year net effective tax rate was 18.8%, while the operating rate was 25%. As a reminder, the key difference between operating tax rate and net effective tax rate was the \$44 million excess tax benefit. Our FY26 guidance assumes a net effective tax rate of 24% with an operating tax rate of 25%.

As shown on page 10, we delivered free cash flow of \$211 million in our fourth quarter. Over the last four quarters, we delivered \$739 million in free cash flow, which represents an increase of 22% year over year. At the end of the quarter, we had \$189 million in cash and marketable investments. Our total debt at quarter end was \$3.06 billion with a weighted average interest rate of 5.27%.

As of September 30, 2025, 91% of our debt was held in senior notes with no term loans. We had \$275 million balance on our revolving line of credit, which is repayable at any time.

We continue to return capital to our shareholders through buybacks. This quarter, we repurchased 358,000 shares at an average price of \$1,499 per share. For the fiscal year, we repurchased 833,000 shares at an average price of \$1,693 per share. Share repurchases totaled \$536 million in the fourth quarter and \$1.41 billion for fiscal 2025, the highest quarterly and annual repurchase levels in the company's history.

Going forward, our philosophy has not changed, 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*

Thanks, Steve. We continue to execute well in our strategy and we're well positioned for a strong fiscal '25. As we announce our guidance, I'll remind everyone that consistent with prior years, we expect some of the pricing initiatives in '26 to have an additional impact beyond our guided numbers. And because of uncertainty in volumes, it's difficult to estimate the timing and magnitude of that impact.

I'm pleased to report that today, we're guiding even stronger growth than we achieved in fiscal '25. As you can see on page 13, we are guiding the following: revenue of \$2.35 billion, an increase of 18% over fiscal '25; GAAP net income of \$795 million, an increase of 22%; GAAP EPS of \$33.47, an increase of 26%; non-GAAP net income of \$907 million, an increase of 24%; and non-GAAP earnings per share of \$38.17, an increase of 28%.

With that, I'll turn the call back to Dave, and we'll open up the Q&A session.

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

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Services Corp - Analyst*

I guess my one question is just a broader question around your recent discussions with the FHFA. Obviously, there's a lot going on and [direct to] be treated favorably about your recent actions. But then also, like, what's next? A lot of the talk on FICO 10T, do you think that gets approved soon? Just anything there you could provide that would be helpful.

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

Sure. Well, we've obviously been engaged in constructive conversation with the FHFA. The director has had a big push for increasing competition, and our direct distribution program is a big step in that direction. It basically creates competition in the distribution of credit scores. So that was positively received.

With respect to 10T, it is with the GSEs, and we're working with them to get it out. And I can't give you an exact date, but we're confident that eventually it will be released.

Operator

Simon Clinch, Rothschild & Company Redburn.

Simon Clinch - *Redburn Partners LLP - Equity Analyst*

Just to clarify, that's Rothschild & Co Redburn. I was wondering, maybe, Steve, if you could talk about some of the assumptions around the actual direct licensing model that you built into the guidance for the year. And how we should think about the cadence of that through the year? Because I know quite a lot is really sensitive to the mix of whether it's the historic model or the performance model.

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

Yeah, that's a really good question. And honestly, I think you follow us for several years. I mean, you realize that we're pretty conservative with the way we guide generally, but we're probably more conservative this year because there's a lot of uncertainties in the macroenvironment and the timing around some of this.

So with the performance model, for instance, there could be a time lag just because of the way it works if it's performance-based. After the mortgage process starts in December and it's built into January, we won't necessarily get paid on the performance piece of that yet. And even at the end of the year, if the process starts in the August, September timeframe and may not closed until out so that performance might spill into '27. So there's a lot of complexity to all that.

So frankly, we're being very conservative with the way we look at this. And we just don't know for sure yet who's going to take which model. So there's probably more conservatism built in than what we would generally have. And then within a couple of quarters, we'll be able to give you a lot more information on that and how that really shapes up, and then we can all do a better job of understanding the timeline of this.

Operator

Jason Haas, Wells Fargo.

Jason Haas - Wells Fargo Securities LLC - Analyst

I know we've just recently gotten the price information for fiscal 2026, but we're already starting to think about what pricing could look like in fiscal 2027 and beyond. So I was curious if you could talk about how you're thinking about price increases over the long run and if there's any change to the pricing runway now that you're going through this direct model. Thank you.

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

Well, yeah, I guess that everybody would love to know what the pricing is going to look like in '27, '28, and beyond. And as is our customer, we're not going to share any of that with you because we don't know ourselves.

We read the market and we read the environment, and here's what you can take as kind of our baseline. We believe that there continues to be a very large value gap between what we charge and the value that the score provides to those who use it. And so we've been on a mission over a number of years, and they'll continue into the future to close that value gap. As we've said in the past, our goal is to do it in a predictable methodical way and not create any kind of big dislocations, but to make it very manageable for all industry participants.

But do we believe that the value gap continues to exist? It does. Are we going to address that in coming years? We will. And exactly the nature and form of that and the amount of that is all TBD because we don't know ourselves.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - Deutsche Bank AG - Analyst

I wanted to ask about what type of feedback you've gotten from lenders on the two pricing models that you have? And if there's any hesitation around going by the resellers and essentially going direct? Because I believe the performance model is only available if they go direct. And if there are any complexities or additional costs that lenders might have to incur if they're going direct and not to the bureaus.

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

So far, we're getting really positive reduction to the direct model. Now our goal is to make our IP, our FICO Scores available through both the bureaus as we've done historically and through the direct channel through the tri-merge resellers. A lot of enthusiasm for the direct approach. There are not a lot of operational complexities. We'll work through the details. And so it's going to be available.

In terms of the reaction from lenders, the whole idea was to provide a choice, to provide optionality to let those who consume the scores optimize for their own businesses the way that they consume the scores. And so we've done that with the two models. You can imagine that we spent a lot of time thinking about how to construct them so that we wouldn't be -- we FICO wouldn't be terribly hurt through adverse selection because you can expect for those who consume these scores are going to choose the model that's best for them.

And so that all went into the calculus. And we're very comfortable that, however, the mix shakes out between the per-score model and the performance model will be fine and customers will be happier.

Operator

Surinder Thind, Jefferies.

Surinder Thind - Jefferies LLC - Analyst

Will, given that we've seen 10T adoption in the non-conforming market, can you maybe walk us through those conversations the specifics of the evaluation and maybe how long it took those lenders to make that decision. I think that would be helpful in just kind of color to try and understand the timing around some of these upgrades and the complexity?

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

Well, so in the non-conforming market, more than anywhere else, they truly care about default risk and prepayment risk and the predictiveness of the score really matters. And I think that's what motivates and drives those who already have chosen FICO 10T to do that.

We make the score available. We give them both classic and FICO 10T. We give them the data with which to do the analysis. And so far, there's a lot of happiness over the introduction of our latest and greatest score.

So I mean, that's the dynamic. But in that market, like in all scoring markets, things move slowly. It takes a while to test and to adopt. And so there's still a lot of room for penetration in the non-conforming market, but we're very happy with our progress to date.

Operator

Jeff Meuler, Baird.

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

Let me invert the answer you just gave to that question. So in the conforming market, where it's more about residual credit risk and there's less default risk to the security holder, just help us understand kind of the value prop or compare and contrast the value prop of staying on FICO in the conforming versus non-conforming market. Thank you.

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

Well, I think there are some people who believe that because the GSEs have a guarantee that suddenly credit risk doesn't matter and that we default to a much lower importance criteria like the price per score. And I would just challenge that. I would tell you it's not true.

The reality is that mortgage originators, who passed the loans to Fannie and Freddie still care about credit risk. They still care about prepayment risk. They still care about default risk.

And as many of you know, when things go wrong with the mortgage, the GSEs are able to put these loans back to the originator. They basically take a look at the documentation, and there's often problems of the documentation and the loans get put back. So the originators, even if they don't hold the loan and hold the risk associated with the loan, they still care about the credit risk.

And so, I think that in both the conforming market and the non-conforming market, you're going to see appetite for the most predictive score and the best understanding of prepayment and default risks.

Operator

Ashish Sabadra, RBC Capital Markets.

Ashish Sabadra - Rbc Capital Markets - Analyst

I'll just ask a question on the software front. ARR moderated there, but you obviously had a very strong ACV bookings quarter, but as well as the year. How should we think about this ACV starting to convert into ARR as we head into '26?

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

Yeah. We'll actually see as soon as Q1 acceleration of ARR. So that's something that we see coming in because as these deals go live, it helps us right away with ARR.

Operator

George Tong, Goldman Sachs.

George Tong - Goldman Sachs - Analyst

Now that mortgage resellers will be undertaking more responsibilities calculating the score, under the direct licensing program. What are your thoughts on whether they may raise their fees to met with the credit bureaus charge? What are some of the conversations with these resellers suggested?

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

Well, that's up to the resellers what they're going to charge. And I think that's all TBD. I don't think that their pricing is completely understood from the bureaus on the data side. And so I think they're still putting together their pricing.

We obviously don't really influence that. They're running a business and they do what they do. So I mean, that's entirely in their hands.

Operator

Scott Wurtzel, Wolfe Research.

Scott Wurtzel - *Wolfe Research LLC - Analyst*

I'm just wondering if you can talk about in the FY26 guide what you're contemplating in terms of pricing on other areas and scores such as auto and how you're thinking about the monetization opportunity there. Thanks.

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

Yeah. It's a little more modest than mortgage. I mean what we do -- we've talked about this in the past. What we do is we look across all the different segments in which the scores are used. And we will typically put in place kind of a cost of living, inflation-oriented adjustment on price across the board. And then we go after selective areas, where we think that there's the big value gap and there's an opportunity for a little bit more price. And so we've done that this year in areas outside of mortgage, as we always do.

I wouldn't point to any particular segment for dramatic change. I don't think you'll see that. So it's more like years past where it's a little bit more than inflation and cost of living, but there are selective spots where we do a bit more than that.

Operator

Alexander Hess, JPMorgan. Looks like they had a bit of phone issues or line disconnected. I'll move on to the next person in the queue. One moment.

John Mazzoni, Seaport Research Partners.

John Mazzoni - *Seaport Research Partners - Analyst*

Maybe just a follow-up on the strength in the ACV bookings. Could you just maybe give us some color in terms of what drove that kind of outsized quarterly performance? And is there any kind of budget flush or any other items we're seeing? I just want to make sure there wasn't a pull forward or any other things like that. Thanks.

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

Yeah, there was nothing. I mean, I think you've seen in the last several quarters kind of an acceleration in that number. We're just seeing momentum there, right? We've got a new sales leader that came in there. So there's some excitement around that, plus we just have there's momentum gaining with the products that we produce in the platform.

So it just takes time for that to gain traction, and we're seeing the results of that. And we hope to see that continue going into the next year as well.

Operator

Ryan Griffin, BMO Capital Markets.

Ryan Griffin - BMO Capital Markets - Analyst

Just hoping to focus a little bit on the mortgage volume side of the equation. Just curious what is built into your guidance and what swing factors, whether it's trigger loans or rates could impact you. Thank you.

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

Yeah. I think this is where the conservatism comes, right? We don't really have a full understanding. Trigger leads, we have a pretty big assumption in there for reduction because of trigger leads. So we're being really conservative. I mean, we're looking at this and thinking until we know more, it's a lot easier to raise your guidance than it is to lower it.

So I think we're always conservative, but this year, probably more than other years, we're extra conservative.

Operator

Owen Lau, Clear Street.

Owen Lau - Clear Street - Analyst

So for the multi-year agreement with your resell, I think, sector, could you please add more color on the pricing arrangement for this agreement longer term? Is the pricing lock in in this agreement or there's flexibility go to raise pricing because of the value you provided? Thanks.

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

Well, that's a good question. Our pricing is for 2026. And we have a multi-agreement to work together, but the pricing that's been published is for 2026. And as you know, we adjust our prices every year, and that will continue.

Operator

Alexander Hess, JPMorgan.

Alexander Hess - JPMorgan Chase & Co - Analyst

Hey, sorry about that. Suddenly pressed hang up instead of unmute. So on the guidance, you indicated to me this quarter is wrong, that your guidance that you don't expect any loss of market share or any significant volume changes in auto, card, and personal loan originations. That was sort of from the prepared remarks.

Mortgage wasn't touched on that. I know you just said you're being conservative with the assumptions, but like what could surprise to the upside in mortgage? Is it better volume, better market share retention?

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

Well, I mean I think it's -- the market share we're not very worried about to be frank. The volumes will vary mostly with interest rates. And your guess on that is as good as ours. And as we have for many years, we're very conservative on forecasting increases in volume based on expectations about where our rates go.

And we've been rewarded for that conservatism in years past because rates have had for the last several years not come down to the extent that people expected. And we've done more of the same this year. So although there's a good chance rates will come down, big volume increases associated with rate declines are not built into our guidance.

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

Yeah. And just -- I mean, just to further expand on that, if you followed us, you realize that all we look at guidance is we build a model that we believe is what's likely to happen. And then we will take that and herecut that expectation. So we want to be able to exceed, right? We don't want to be sweating out to the fourth quarter hoping that things are going to work well.

So that haircut gives us the ability to -- without things getting dramatically better to still be able to raise our guidance or beat our guidance. So we've done that again this year. And like I said before, it's probably a little bit more of a haircut that went into that because there's so much uncertainty. So that's just kind of a background again on how we actually prepare our guidance.

Operator

Kevin McVeigh. UBS.

Kevin McVeigh - *UBS AG - Analyst*

If you could give us a sense, are the resellers on pace for the 1:1 adoption? And are you helping them with the implementation? And any thoughts as to what they've experienced? It sounds like they were pretty far along anyway, but just any thoughts around that?

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

We're on pace. I mean, I can't give you an exact date, but things are tracking very nicely. And as I said, there's not a lot of operational hurdles to be overcome.

Operator

Craig Huber, Huber Research Partners.

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

Just is your position right now that you think the credit bureaus are not going to have the option for the performance model that you guys are offering that the resellers will, you're just not sure what percentage yet of the resellers will offer both models and not sure what percentage of the lenders will go with the performance model? Thank you.

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

Yeah. I can't give you a definitive answer to that. We're in that discussion. And we frankly don't know what the split is going to be between the score, the per score and the performance model. We just don't know.

We've obviously done a lot of modeling and sensitivity around it. And it's easy to come up with a hypothesis about how it will split based on the average number of scores pulled per closed loan for different kinds of lenders and different kinds of mortgage originators. And so that's kind of what's gone into our calculus on what winds up in which model. So I mean, those are the things that inform the decision, but it's not finalized.

Operator

Rayna Kumar, Oppenheimer.

Unidentified Participant

Hi. This is [Guru] on for Rayna. Thanks a lot for taking our question. I was wondering if you could maybe just help us understand the usage of FICO Scores in the downstream market. How material is it to total mortgage core volume? And what are the overall dynamics like there? This will be helpful in determining how we should be thinking about the potential uptake in the new [Fair Isaac Corporation's] performance pricing model and the value of that 33%, right, which was previously the issue fee? Thanks.

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

Yes. So obviously, there's a lot of score volume that happens downstream that we had historically not monetized. It ranges -- where does the score get used without focusing on who pays for it. The score gets used by the mortgage originators. It gets used by lenders. It gets used by the GSEs in terms of their screening of whether they're prepared to accept the loan or not.

It gets used by the rating agencies, S&P and Moody's, when they rate the bonds, the mortgage-backed securities that go out to the marketplace. It gets used by the [more than vast] securities investors when they price those bonds. It gets used by the mortgage insurers, and it also gets used by some of the prudential regulators in their capital adequacy models. So it's used in many, many, many places downstream. And historically, we haven't charged for that. And your point is well taken, which is a per-close loan pricing was designed to capture some of that IP value.

Operator

Thank you. I'm not showing any further questions at this time. And as such, this does conclude today's presentation. We thank you for your participation. You may now disconnect, and have a wonderful day.

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