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FICO.N - Q4 2024 Fair Isaac Corp Earnings Call

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OVERVIEW:

Company Summary

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David Paige *RBC Capital Markets - Analyst*

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PRESENTATION

Operator

Thank you for standing by, and welcome to FICO's fourth-quarter 2024 earnings conference call. (Operator Instructions)

I would now like to hand the call over to Dave Singleton. Please go ahead.

Dave Singleton - *Fair Isaac Corp - Vice President, 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 portion 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 appropriate comparable GAAP measure.

This includes an FY25 guidance reconciliation of GAAP to non-GAAP earnings, which are adjusted for items such as stock-based compensation and excess tax benefit. This reconciliation is part of the earnings release included an Exhibit 99.1 to our 8-K, which we filed with the SEC under Item

2.02 titled 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, and a replay of this webcast will be available through November 6, 2025.

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. We'll be referencing those during our presentation. Today, I'll talk about this quarter's results and our guidance for fiscal '25. We had another fantastic year.

We exceeded fiscal '24 guidance on all metrics and delivered strong growth in free cash flow. As shown on page 2 of the fourth-quarter financial highlights, we reported fourth quarter revenues of \$454 million, up 16% over last year. For the full fiscal year, we delivered \$1.718 billion in revenue, up 13% versus the prior year. We reported \$136 million in GAAP net income in the quarter, up 34% and GAAP earnings of \$5.44 per share, up 36% from the prior year.

For the full fiscal year, we delivered \$513 million in GAAP net income, equating to \$20.45 of earnings per share, up 19% and 21%, respectively. We reported \$163 million in non-GAAP net income in the quarter, up 29% and non-GAAP earnings of \$6.54 per share, up 30% from the prior year. For the full fiscal year, we delivered \$595 million in non-GAAP net income, which equates to \$23.74 of earnings per share, up 19% and 20%, respectively.

As shown on page 10, we delivered record free cash flow of \$219 million in our fourth quarter and \$607 million over the last four quarters, an increase of 31% year over year. We continue to return capital to our shareholders through buybacks. In the fourth quarter, we repurchased 188,000 shares at an average price of \$1,721 per share. For the fiscal year, we've repurchased 606,000 shares at an average price of \$1,366 per share.

In our scores segment, on page 6 of the presentation, our fourth-quarter revenues were \$249 million, up 27% versus the prior year. For the full year, our revenues were \$920 million, up 19% versus last year. On the B2B side, fourth quarter revenues were up 38% versus the prior year and up 27% for the full year, primarily driven by mortgage originations.

On the B2C side, fourth-quarter revenues were down 1% versus the prior year and down 2% for the full fiscal year, driven by decreased sales on the myfico.com website. Fourth-quarter mortgage originations revenues were up 95% versus the prior year. Mortgage origination revenue accounted for 47% of B2B revenue and 37% of total scores revenue. Auto originations revenues were down 2%, while credit card, personal loan and other origination revenues were down 5% versus the prior year. Today, we've announced that for calendar 2025, FICO's wholesale royalty will be \$4.95 per score for mortgage originations.

At this new per score royalty, the amount collected by FICO will remain a small percentage, on average, about 15% of the Tri-Merge bundle cost, which typically runs \$80 to well over \$100. With total average closing costs of \$6,000, FICO's share is only about [0.2%]. As such, it will continue to be the lowest of all individual mortgage closing costs. The FICO Score plays a central role in facilitating about \$2 trillion in mortgage originations every year as a critical tool for borrowers, lenders, insurers, investors and other important stakeholders.

The royalty collected by FICO is entirely fair and reasonable, and the FICO score continues to deliver incredible value as the most trusted and cost-effective tool used to evaluate consumer credit risk and residential mortgage finance. More information on our new royalty pricing can be found on our website at www.fico.com/blogs, and I would encourage you all to get some more detail on the blog.

We continue to drive strong adoption from FICO Score 10 T for the non-GSE mortgages. This quarter, we signed new lenders, including United Wholesale Mortgages, the largest global mortgage lender. We now have clients with over \$244 billion in annualized mortgage originations and about \$1.33 trillion in eligible mortgage portfolio servicing that have signed up for FICO Score 10 T. Firms are already using 10 T to make credit decisions, for securitization and for delivery to investors. FICO 10 T for conforming mortgages sold in the GSEs will be rolled out based on the timeline of the FAA's implementation of enterprise credit score requirements.

Now we continue to innovate in our scores business. Last week, we announced the upcoming launch of FICO Score mortgage simulator, which enables mortgage professionals to run credit event scenarios by applying simulated changes in an applicant's credit report data to simulate potential changes to the applicant FICO score. This benefits both mortgage lenders and consumers by potentially providing more loan options and more favorable interest rates.

In our software segment, we delivered \$205 million in fourth-quarter revenue, up 5% from last year, driven mainly by growth in SaaS software, partially offset by a decline in professional services. We delivered \$798 million in fiscal year revenue, up 8% from last year. We continued to drive growth in ARR and NRR through our land and expand strategy with expand driven by increased customer usage.

As shown on page 7, the total ARR was up 8%, with platform ARR growing 31% and non-platform ARR flat year over year. Total NRR for the quarter, shown on page 8, was 106% with platform NRR at 123% and non-platform at 99%. ACV bookings for the quarter were \$22 million. Our total ACV bookings for the year were \$85 million, down 10% year over year. While we face some macroeconomic headwinds in the first half of the year, the second half bookings were consistent year over year.

I am excited about the future of our software business. This quarter, IDC recognized FICO as a leader in the worldwide Decision Intelligence platform market. This is a testament to our commitment to innovation that enables real-time transparent decision-making at scale. We help organizations design, engineer and orchestrate decisions by automating steps in the decision-making process. FICO was recognized for its capabilities and strategy meeting both today's customers' needs and the needs of our customers in the future.

We announced two FICO platform partnerships this quarter. We have partnered with Tata Consulting Services, generally known as TCS, a global services integrator and with Ison Experience is the largest business process outsourcing solutions company in Africa. Both partnerships will leverage FICO platform to create industry-specific solutions for real-time decision making. These partnerships will help us continue to drive strong growth for our platform business.

Before I address fiscal '25 guidance, I'll pass it over to Steve to provide some other 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 very good quarter with total revenue of \$454 million, an increase of 16% over the prior year. Our full-year revenue of \$1.718 billion was up 13% over last year. Scores segment revenues for the quarter were \$249 million, up 27% from the prior year. B2B revenues in that score space were up 38%, driven primarily by mortgage originations revenues.

Our B2C revenues were down 1% versus the prior year due to volume declines in our myFICO.com business. For the full year, B2B revenues were \$712 million, up 27% and B2C revenues were \$208 million, down 2%. Total scores revenues were \$920 million, up 19% despite headwinds in the mortgage originations market. Software segment revenues for the quarter were \$205 million, up 5% from the prior year. On-premises and SaaS software revenue grew 8% year over year, while professional services declined 9%.

Full-year software revenues were \$798 million, up 8% from the prior previous year. This quarter, 85% of total company revenues were derived from our Americas region, which is a combination of our North America and Latin America regions. Our EMEA region generated 10% of revenues and the Asia Pacific region delivered 5%. Our total software ARR was \$721 million, an 8% increase over the prior year. Platform ARR was \$227 million, representing 31% of our total Q4 '24 ARR, up from 26% of total Q4 '23 ARR.

Platform ARR grew 31% versus the prior year, while non-platform was flat at \$494 million this quarter. This aligns with our strategy to focus on FICO platform growth while continuing to retain our non-platform customers. Over time, we do expect migration of these customers to platform products. Our platform land and expand strategy continues to be successful. Our dollar-based net retention rate in the quarter was 106%.

Platform NRR was 123%, while our non-platform NRR was 99%. 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 \$22 million. ACV bookings for the full year were \$85 million.

Turning now to expenses for the quarter, as shown on page 5 of the financial highlights presentation. Our total operating expenses were \$257 million this quarter versus \$224 million in the prior year, an increase of 15% year over year and flat versus the prior quarter. For the full year, our expenses were \$984 million versus \$871 million in the prior year, an increase of 13%. Our FY25 guidance assumes lower year-over-year expense growth than in the prior year. We maintain our focus on efficiencies and are committed to prioritizing resources to our most strategic initiatives.

We continue to focus investment to accelerate development and distribution of FICO platform, while also investing in scores resources and marketing. Our non-GAAP operating margin, as shown in our Reg G schedule, was 52% for the quarter compared with 51% in the same quarter last year.

We delivered non-GAAP margin expansion of 90 basis points for the full fiscal year. GAAP net income this quarter was \$136 million, up 34% from the prior year's quarter. Our non-GAAP net income was \$163 million for the quarter, up 29% from the prior year's quarter. For the full year, GAAP net income was \$513 million, up 19% versus last year, and non-GAAP net income was \$595 million, up 19% versus last year. GAAP earnings per share this quarter were \$5.44, up 36% from the prior year. Our non-GAAP earnings per share were \$6.54, up 30% from the prior year.

For the full year, GAAP earnings per share were \$20.45, up 21% from last year, and our non-GAAP earnings per share were \$23.74, up 20% from last year. The effective tax rate for the quarter was 20.8%. The effective tax rate for the full year was 20.1%, which included \$30 million of reduced tax expense from excess tax benefits recognized upon the settlement or exercise of employee stock awards. We believe that our fiscal year 2025 net effective tax rate is expected to be around 22%, while our recurring tax rate is expected to be around 26%.

The recurring tax rate is before any excess tax benefit and other discrete items. Free cash flow for the quarter was \$219 million, a 35% increase from the previous year. The full year free cash flow was \$607 million and was up 31% versus last year. At the end of the quarter, we had \$196 million in cash and marketable investments. Our total debt at quarter end was \$2.21 billion, with a weighted average interest rate of 5.2%. Currently, 59% of our total debt is fixed rate. Our floating rate debt is pre-payable at any time and gives us the flexibility to use free cash flow to reduce outstanding floating rate debt balances in future periods.

Turning to return of capital. We bought back 188,000 shares in the fourth quarter at an average price of \$1,721 per share. We continue to view share repurchases as an attractive use of cash. In fiscal 2024, we repurchased 606,000 shares at an average price of \$1,366 per share for a total of \$828 million.

And with that, I'll turn it back to Will to review our fiscal 2025 guidance.

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

Thanks, Steve. We continue to execute on our strategy, the proof is in our financial results and customer adoption of both our software and scores products. Fiscal '24 was a great year. We had our most successful FICO World as we brought together customers and prospective customers from around the globe. We continue to win the trust of our customers with over 100 customers speaking on stage as to how our software helps achieve their goals.

We continue to be an industry leader as evidenced by analyst community reports, including IDC, Forrester, Gartner, and Chartis. We continue to innovate. At FICO World, we introduced APIs to drive partner channel adoption of FICO Platform. We previewed the upcoming launch of our new FICO Marketplace.

In year, we delivered new FICO Platform capabilities, created new IP using responsible AI methods and announced the upcoming launch of FICO Score mortgage simulator. We continued our commitment to financial literacy for both students and adults. We completed the field of dreams, the field of financial empowerment summer tour with Chelsea Football Club and U.S. Soccer Foundation. We hosted Score better future workshops across the U.S., which is just one of FICO's programs that help millions of people gain access to credit.

We're well positioned for 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 2015 have an additional impact beyond our guidance numbers. And because of uncertainty in volumes, it's difficult to estimate the timing and magnitude of that impact.

While macro trends are difficult to predict, our recurring revenues and diversified product portfolio give us considerable visibility into fiscal 2025. With that in mind, we are guiding double-digit growth for both revenue and earnings metrics as shown on page 13 of the presentation. We are guiding revenues of about \$1.98 billion, a 15% year-over-year increase. GAAP net income of about \$624 million, an increase of 22%, GAAP EPS of about \$25.05, an increase of 23%, non-GAAP net income of approximately \$712 million, an increase of 20% and non-GAAP EPS of approximately \$28.58, an increase of 20%.

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

Dave Singleton - Fair Isaac Corp - Vice President, 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 - Analyst

Well, thank you for the disclosure and pointing us to the blog as well. I think the whole [0.2%] that you've talked about, that's been pretty consistent. I guess just thinking ahead, do you still see more room for that gap to close? I mean, I guess it's 1% the mark?

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

Well, we continue to believe that our score delivers tremendous value relative to what we charge. And so yes, I would say that there is still opportunity.

Manav Patnaik - Barclays - Analyst

Okay. Good enough. And then, well, where there's obviously a lot of work and focus on your end is on the software side. And I was just wondering if you could just level set us with, I don't know how you want to think about it, whether what inning you're in and what some of the key initiatives you have planned for this year is on that software side, whether it's maybe more spending to keep investing in the platform? Or just anything there would be helpful.

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

I would say that we're still very much in early innings. You can see that with our penetration of what we call enterprise platform customers, EPCs, where we've penetrated a little under half of the top 30 financial institutions globally. So there's still a lot of opportunity for landing the platform with major players with major lending institutions. And that, of course, is before we go down market, that's before we expand through to other verticals. So I'd say it's very, very early innings.

That said, we're so far beyond minimum viable products that we're not in inning one. We are far enough along that we have the preeminent platform in the world for decisioning and it is increasingly recognized by players who need it. So that continues to be something really strong for us.

I think in terms of investment and when do margins expand, we will continue to invest in the platform. There's certainly a lot more features and functionality that our customers are clamoring for. And as we've discussed in the past, we are investing in indirect sales and distribution. We are investing in an ecosystem that with our open APIs should enable all kinds of players that we don't ordinarily do business with to take advantage of our decisioning IP.

So there is this pretty big opportunity still ahead of us, and it does demand some level of investment. All that said, we are in the process of reengineering our platforms for scalability and for margins. And there's no doubt that even if we maintain high R&D spend, which we do today and which will likely continue for some time, our margins ought to improve over time just because we're getting more scale and because we've designed with a view to improving margins through more scale. So I hope that's helpful. Early days, continued investments, but we're going to get more profitable anyway.

Operator

Surinder Thind, Jefferies.

Surinder Thind - Jefferies - Analyst

Well, just on the software piece, can you maybe just disaggregate the overall guidance, what your expectations are for the software component and how we should think about maybe platform versus non-pump at this point?

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

Yes, thanks for the question, Sure. We don't guide at that level. We don't guide at the segment level. We just got the total corporate level. So we don't talk about specific what we expect in scores versus software and even below that on the software side, we don't split out platform versus non-platform.

Frankly, it's a little difficult sometimes to even know the difference between platform and non-platform, (inaudible) early stage with some of these deals that could end up on the platform or could end up in the legacy product as well. So we don't really split that out.

Surinder Thind - Jefferies - Analyst

Understood. And then in terms of just when I think about the, what I would call the partnerships that you're putting into place, in the process of them trying to build out industry solutions. Any color there you can provide on what specific solutions they may be looking at or what industries they might be looking at, at this point? And then how does that work in terms of the IP sharing that such a relationship might have?

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

Sure. It's a good question. I mean, as all of you know, partnerships work best when there's enough economics in it for both sides and where the relationship is complementary and that partners are not competing for the same thing. And so in our partnership with TCS, for example, which is a very strong partnership. We have a number of things going on here. We have tremendous decisioning IP.

They have tremendous reach and distribution and professional services and participation in a whole lot of verticals that FICO does not participate in. So we're doing two kinds of things with them. One is they're developing a level of expertise and confidence for implementing our solutions so

that it can help our direct customers with implementation because they favor professional services in a way that we do not. And so there's a benefit there. But they're also very interested in providing solutions to their customers, vertical by vertical and leveraging IP.

And I think they recognize that our decisioning IP is pretty special. And so they're building solutions around our IP for particular verticals where they have a presence and some expertise. So for example, in the logistics area, TCS is building a proprietary solution based on our decisioning IP. But our intent is to do that and replicate that in other verticals as well.

Operator

George Tong, Goldman Sachs.

George Tong - *Goldman Sachs - Analyst*

You're planning to raise mortgage prices by approximately 50% in 2025. Can you discuss how you're thinking about prices for non-mortgage scores in 2025?

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

Yes. So first of all, I guess I would point out that at [495], that's not a 50% increase. It's less than a 50% increase. But in terms of the other scores prices, as you know, we review the entire portfolio every year and we think about where it's appropriate and fair to raise prices, and we don't do the same thing in every pocket of scores demand. It varies. It varies by year, it varies by segment. And we did apply some increases to non-mortgage. Of course, mortgage isn't the entire business by any means.

George Tong - *Goldman Sachs - Analyst*

Okay. Got it. And then broadly, can you talk about how you expect the Trump presidency to impact FICO's operations?

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

Yes. That's an obvious kind of a question. And as you can imagine, we think a lot about it. That said, I would just say that we work with both Republican and Democratic administrations, and we've had good success with both and the reason is that we're such a core component of the markets in which we operate, we're so integral to the system that it's really unlikely that Republican or Democratic administrations will do things that the push FICO out of its position in the system. We anticipate that in Trump administration, we'll continue to operate as we have is the cornerstone of the credit lending market in the US. And so we look forward to that.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - *Deutsche Bank - Analyst*

Yes. So will you alluded to some macro uncertainty? And I'm curious if you could elaborate on that? Like are you expecting mortgage volumes to recover in 2025. We are seeing rates a little bit higher. And I'm curious if you can comment on like number of pools that you were seeing per application because there are some indications that those have been declining more recently.

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

Well, so with respect to macroeconomic uncertainty, I think that nobody knows what the future holds, not us and not you -- and so we leave it to you to come up with your own estimates on where you think mortgage volumes will be over the coming year. We do anticipate mortgage volumes will increase in the future. But the schedule for that is a little hard to say. And so we've incorporated in our guidance as is typical for us an appropriate level of conservatism. And we'll just have to see how things pan out. In terms of number of pools, we don't have a public pronouncement on that.

Faiza Alwy - Deutsche Bank - Analyst

Okay. Understood. And then I noticed you've been talking about the value that the FICO score provides to secondary market participants, and I'm curious if you have been thinking about that as a potential revenue opportunity going forward? Do you think there's something there?

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

That is a very interesting question. There's no doubt that many people who use the FICO Score don't pay for it. Many people use and rely on the FICO Score. Our business model today has historically been built around -- we charge for the first use and then the downstream and subsequent uses when they are permitted by us by contract, tend to be free. Of course, we're in business.

And so we think about every kind of variation on a theme, and we thought about trying to put the pricing where the usage is to make sure that you could lower prices in one place and raise them somewhere else, maybe that's more fair. But we also recognize that the system is what it is, and every change has to be scrutinized from the standpoint of what kind of unforeseen consequences and what kind of difficulties might we encounter if we change the system.

So it's easy for our strategic thinkers inside FICO to come up with dozens and dozens of variations on how we might price our IP. And trust me, we do. We think about those things, but we're also really mindful of the kind of responsibility that we have to the economy to the community, to our customers, to the participants in the ecosystem and we are loath to make changes that could rattle markets. We don't want to do that. So we're very, very cautious and careful about everything we do. And you've seen that, but that's not to say we don't study it. And if appropriate, we might consider something like that in the future.

Operator

Owen Lau, Oppenheimer.

Owen Lau - Oppenheimer - Analyst

Going back to your guidance, could you please maybe add more color on how do you assume how many weight cuts you expect in 2025? And how will that impact the loan volume.

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

That's one of those areas where everybody has a different opinion and we don't publish our opinion. I think you know what our pricing is. And so I think you should apply that to your own best estimates as a guide to making your decisions about what the future holds for us. I don't know that my speculating on how many rate cut (inaudible) is going to be helpful to anyone. I'm not sure that my opinion is worth more than anyone else's.

Owen Lau - *Oppenheimer - Analyst*

Got it. And then on the platform side, some of the analytic firms were under pressure because of the end market challenges and budget cuts and vendor consolidation and things like that. Could you please give us an update on what you're hearing from your clients given that we are going to the year-end budgeting period.

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

Yes, absolutely. What you point out is something that we used to experience a lot in our applications business 5 and 10 years ago, where we were very much under budget pressure. And so when our customers were under a lot of budget pressure, the sales cycle stretched out and decisions were postponed and deals were postponed. We see much less of that now. What we see is that the platform is truly a strategic investment by our customers.

It tends to be decided at the C-suite level and so I won't say that we're immune to budgetary pressures. But I think that there is this imperative for our customers to make a transition to digital relationships with their consumer customers and they want the kind of power that our platform brings. And their choice is really to try to build it themselves some kind of homegrown solution or to buy it from FICO because there's really not any meaningful competition in terms of features and functionality with our platform.

And as between building it in-house and buying the FICO solution, we've invested close to \$1 billion in our software business to get to this point. And there are a few customers with the wherewithal to make those kinds of investments. And so any kind of a homegrown solution is just not going to be competitive with what they -- FICO at a fraction of the cost.

And so what we see is tremendous adoption of our platform because they do the analysis, and it's a very cost-effective solution, and they get more functionality than they were planning on. They get it much faster than they could if they did it themselves. And so that's really kind of how that decision is going down. So budgetary pressure, who knows, with less budgetary pressure, maybe we'd be doing even better than we are, we can't really say. But we are not experiencing a lot of slowdown because of budget pressures.

Operator

Kyle Peterson, Needham and Company.

Kyle Peterson - *Needham & Company - Analyst*

I wanted to start off on the scores revenue this quarter came in really strong. Just wanted to see where there any one-timers. I know in the past, sometimes, you guys have had some licensing deals or royalty true-up. So I just want to see like, is that a clean number? Or was there anything onetime in the 4Q number?

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

Yes, there was a little bit of onetime and there's off, [I mean], as you know, most quarters, there's some. There was probably a little bit more than -- certainly than last quarter than this quarter. So there's a few million dollars of additional revenue there. I mean it's nothing all that material in the overall number, but there definitely was a little bit of onetime revenue that we don't necessarily have in our run rate.

Kyle Peterson - *Needham & Company - Analyst*

Okay. That's helpful. And then I guess just a follow-up on the mortgage score price rollout. I appreciate the transparency there. Should we think of this as being fully phased in on January 1? Or is there kind of a scheduled phasing or any lag time that we should be mindful of?

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

Yes, there's always a lag. It's not scheduled, but there's -- we used to always talk about discord being feathered in, right, the price because some customers are on deals that don't lap on January 1, still might lap later. So it's consistent with every other year we've had essentially.

Operator

Jason Haas, Wells Fargo.

Jason Haas - Wells Fargo - Analyst

I'm curious if you could talk about what sort of analysis you did to arrive at the \$4.95 mortgage score price? Like why did you decide that was the right number to go with? And then I'm also curious, recognize you're not going to go through the details of the pricing for auto and card, but if you could also talk about what sort of analysis you've run to determine what would be the appropriate price for those verticals as well.

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

There are a lot of factors that go into it. There's not a formula. It's not formulaic, but we look at everything. We do look at volumes. We look at the market. We think a lot about whether the price is fair, whether we're asking our customers to pay a price that exceeds the value that we provide. And we think a lot about those things. And you can probably imagine my view on this, which is that we think it's tremendous value. And so we're fine with where we are. Every year is different.

The percentage increases each year are different. The dollar amount increases are different each year. There's not a formula for it. And we sit down in the couple of months before the September 1 rate card gets published to our partners and we think about it. We also have discussions with them. So there's just a lot of factors that go into it.

Jason Haas - Wells Fargo - Analyst

That's helpful. And then if I could ask a follow-up. On the non-platform business declined slightly, which is a little off trend. I know it's not the focus to grow that, but I was curious if there was anything in particular we should be aware for the quarter there?

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

No. There's nothing there. It's based on volumes. I mean some volumes get a little bit more, a little bit less. It's just volumes and amounted usage we had this quarter.

Jason Haas - Wells Fargo - Analyst

That makes sense.

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

It's worth pointing out. I mean, how do we think about that business -- we have this very strong legacy business where we have large market share in a half dozen very important applications for our customers. They typically renew on like a three-year renewal cycle, that's not -- it varies, but it

happens often. And we're not in a big hurry to push them to the platform. We have our hands full with new business on the platform. And so as long as we have customers who are happy to renew the legacy products, we're happy with that.

And we continue to invest in those legacy products to make sure that the features and functionality are appropriate for today and for tomorrow and for the future. So I think our legacy business is going to be healthy for a very long time to come. We're not really pushing to grow it quickly. And we're not in a harvest mode either. We make modest investment to keep it current. And the fluctuation, whether it's a little over 100% or a little below 100% in terms of where we stand. That tends to be volume driven. It tends to be usage by our customers that pushes us there.

Operator

Ashish Sabadra, RBC Capital Markets.

David Paige - RBC Capital Markets - Analyst

This is David Paige on for Ashish. Congrats on the good results. Two questions. I was wondering if you could talk about the, if any, competitive dynamics in auto and in card. And then as a follow-up, just a higher level of thinking of what your capital allocation priorities are going to be in 2025.

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

Okay. So with respect to auto and card, those two businesses look today like they did a year ago and like they did two years ago, very little change competitively. Our customers continue to use our products and just not a lot of change there, not a lot of competitive threat, not a lot of new innovation coming from competitors. So really kind of no change there. With respect to capital allocation, our strategy there remains unchanged.

As you know, we strive to return capital to our shareholders. We have a very efficient business model. We try to run a pretty efficient balance sheet. We try to manage our leverage to between 2x and 3x and have some level of efficiency there. And it is remarkable to say with a PE north of 100 that we still think our stock is a screaming value, but we really do believe that.

And I've been doing these calls now for 13 years. And every single call, it seems like our stock is at an all-time high, and people wonder why are you still buying back your stock? And to date, it's been a pretty good call. We expect that to continue. We have every intention of returning free cash flow and then some to our shareholders through stock buyback.

Operator

Simon Clinch, Redburn Atlantic.

Simon Clinch - Redburn Atlantic - Analyst

I was wondering, well, perhaps you could -- it's quite an important day to be issuing your earnings in the US. And I was wondering if you could give some thoughts around really around the FHFA's proposal and implementation of this proposal in the fourth quarter. Do you think anything really changes in terms of the probabilities of that being either delayed or canceled or any thoughts around that would be very useful.

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

We wonder the same thing, and I think no one knows I don't think it's a secret that the industry has been slow to move on the expected implementation because there are some things that still have to be sorted out. The FHFA has a plan. We're working with them, cooperating with

them every way we can to see it happen. But there's no telling what a new administration might do. It's just really hard to say. Maybe things take a little bit longer than they otherwise might have. That's probably the most likely scenario. But there could be a change in direction, one just doesn't know.

Simon Clinch - Redburn Atlantic - Analyst

Okay. That's useful. And just as a follow-up then, just on the software business, could you provide a little bit more color just around sort of where you are in terms of exploring the investments behind expanding your distribution beyond just your large financial customers and just where you are with that, please?

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

Yes. There's a few ways we're going at that. I mean, at the upper end of the ecosystem, we're working with partners. So I mentioned TCS was one, but we're in conversations with a number and have deals with a number of other partners. So the big systems integrators, they are very natural partners for us to get into other verticals.

And they have customers, they have distribution, they have skills, they have domain expertise and they can take that, apply it to our IP and provide solutions in these other verticals. And so that's clearly a very efficient way for us to get into kind of more diversified markets.

The other thing that we're focused on, which I think is going to take longer is, I wouldn't call it quite a self-service model, but more a self-service model where we have open APIs and ISVs and resellers and VARs have the opportunity to come and leverage our platform and our IP with very little intervention from us. And in the long run, we'd really like to see that flourish. We have a marketplace that we've built to facilitate this. But I think that's going to take time to build.

Operator

Scott Wurtzel, Wolfe Research.

Scott Wurtzel - Wolfe Research - Analyst

Just first one on the ACV bookings trends. I know historically, we usually see a sequential step-up from 3Q to 4Q. And I thought the number was still pretty good. But just wondering, was there any maybe pull forward of bookings into the third quarter that is maybe distorting that seasonal trend a little bit?

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

Yes. I mean there's really no reason for a seasonal trend. Typically, a lot of times it does happen that our fourth quarter is higher. But if you look at this year, our third and fourth quarter was exactly the same number, give or take, as the third and fourth quarter combined last year. So probably was some pull forward on some deals from our fourth quarter this year into the third quarter. And there have been some deals last year that pushed from the third and fourth quarter. So it's hard to really look at any one specific quarter that way.

Scott Wurtzel - Wolfe Research - Analyst

Got it. That's helpful. And then just as a follow-up, just on your guidance, wondering if you can maybe help us understand how you're thinking about investments and expense growth in fiscal year '25.

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

Yes. When you see it built into -- if you -- we gave you all the numbers basically, you kind of see what our expense elevate looks like. But as we said, the expense growth that's built into the guidance is a lower growth rate than what we saw in '24. We have some kind of onetime things happening in '24, both non-repeating some benefits we got last year and then some onetime as we paid for this year as well. So there's some growth built into the expenses, but it's less than what we had this year.

And then it's less than what our top-line revenue growth. So we'll get margin expansion out of that. And then if we're able to beat guidance throughout the year, usually that comes in line in a pretty decent margin. So there's a little bit of expense growth that comes with additional revenue, but that would come at a much higher margin profile as well.

Operator

Andrew Stein, FT Partners.

Andrew Stein - Financial Technology Partners - Analyst

I just have one question tonight. Could you at least provide some color on the volume trends within scores when the 30-year mortgage was closer to 6% in the back half of September relative to the rest of the quarter?

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

Yes. I mean the best source for data for that is actually just look at what the NBA publishes. That's what we look at. That's actually more real time than the numbers that we see. So we can't really track it on a week-by-week basis like they do.

So I would push you to that, first of all. But we did see -- we saw some upticks when the rate came down and then we saw it slow down a little bit. And it's hard to really draw much of a trend from any of that. So obviously, we're very conservative with the way we guide going forward.

Operator

Kevin McVay, UBS.

David Paige - RBC Capital Markets - Analyst

Could you give us a sense of with the 2025 pricing, how much of that is factored into the guidance already just directionally? And is there anything from '24 that's factored into the '25 guidance? I guess, any sense of just how that phases, maybe anything that didn't occur in '24 in the '25 and '25 more broadly?

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

Yes. I think that the two things going on there. One is the new pricing each year goes into effect on Jan 1, but our fiscal runs from October 1 to September 30. So obviously, there's a one-quarter discrepancy in the pricing -- and when the pricing gets, so that's one factor that influences it. And then the other, as Steve mentioned earlier, is a lot of our channel partner customers have multiyear deals. And when they do, we honor the prices from prior years. And so that's another thing that can affect that relationship.

Operator

Thank you. Ladies and gentlemen, that does conclude the Q&A portion of our call and our conference for today. Thank you for participating. You may now disconnect.

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