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EDITED TRANSCRIPT

FICO.N - Q4 2026 Fair Isaac Corporation Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to FICO's fourth quarter 2026 earnings conference call. (Operator Instructions)

I would now like to hand the call over to Dave Singleton, Head of IR. Please go ahead.

Dave Singleton - *Fair Isaac Corporation - Head of IR*

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.

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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 FICO's 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 Reg G schedule issued today for a reconciliation 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 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 4, 2027. Our quarterly investor presentation is available on the Investor Relations section of our website, and we will refer to this presentation during today's earnings announcement.

I will now turn the call over to our CEO, Will Lansing.

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

Thanks, Dave, and thank you, everyone, for joining us for our fourth quarter earnings call. With another strong quarter, we closed fiscal 2026 as the most successful financial year in FICO's history.

We reported Q4 revenues of $657 million, up 27% over last year, as you can see on Page 5 of our investor presentation. For the full fiscal year, we delivered revenues of $2.535 billion, up 27% versus the prior year.

For the quarter, we reported GAAP net income of $175 million, up 13% and GAAP earnings of $8.12 per share, up 26% from the prior year. GAAP net income included three significant items, which Steve will discuss later, that had a combined net charge of $44 million pretax, $33 million after tax. Excluding these items only, adjusted net income would have been $208 million, up 27%, and adjusted earnings per share would have been $9.64, up 43% on a comparable basis to the prior year. These items are excluded from our non-GAAP results, along with other adjustments consistent with prior periods. With all these adjustments for the quarter, our non-GAAP net income was $239 million, up 28%, and non-GAAP earnings per share were $11.10, up 43% from the prior year.

For the fiscal year, GAAP net income was $835 million, up 28% from fiscal 2025, and GAAP earnings per share were $36.32, up 37% over the same period. For the fiscal year, non-GAAP net income was $988 million, up 35% from fiscal 2025, and non-GAAP earnings per share were $42.99, up 44% over the same period. We delivered free cash flow of $284 million in our fourth quarter.

For the full fiscal year, we delivered $1.034 billion in free cash flow, an increase of 40% over fiscal 2025. In fiscal 2026, we repurchased a record $3.028 billion of stock or 2.514 million shares at an average price of $1,204 per share. This represents about 10% of shares outstanding from the end of fiscal 2025.

Now in Q4, we paused repurchases and directed free cash flow to repaying the term loan that funded the Q3 accelerated share repurchase, bringing leverage to 3.29 times net debt to EBITDA. Going forward, our philosophy has not changed. We continue to view share repurchases as an attractive use of cash. At the segment level, shown on Page 6, Scores revenues in our fourth quarter were $414 million, up 33% versus the prior year.

While B2B Scores were the key driver of growth, we also experienced continued growth in B2C Scores. For the full year, we delivered $1.652 billion in Scores revenues, up 41% from the prior year. In our Software segment, we delivered $243 million in Q4 revenues, up 19% year-over-year. Results included 84% platform revenue growth and a 12% decline in non-platform revenue. For the full year, we delivered $883 million in Software segment revenues, up 7% from the prior year.

Steve will provide additional segment level details later. This year, our Scores business advanced our strategic priorities in a challenging environment, and I'm really proud of our accomplishments. We laid the groundwork for broader distribution by signing direct license

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agreements with reseller partners representing about 73% of mortgage reseller volume, including the current quarter agreement with Informative Research.

We also brought new IP into the market with next-generation UltraFICO Score, and we grew adoption of both our FICO Score Mortgage Simulator and FICO Score 10T. This quarter, the FHA announced FICO Score 10T, which is the most predictive modern credit score, will be available for approved lenders beginning Jan 1, 2027.

The availability of FICO Score 10T will enable lenders to make more accurate lending decisions, while helping consumers gain access to more favorable mortgage terms and sustainable homeownership. FICO Score 10T outperforms competing models by more than 10% on FHA first-time home buyer mortgages. A clear predictive advantage in a segment where accurate risk assessment is paramount.

Our FICO Score 10T Adopter Program, which you can see on page 9, has grown to 84 lenders, spanning both conforming and non-conforming mortgage markets. The program now represents over 60% of the volume generated by the top 50 mortgage originators for originated FHA units, over 50% for originated first-lien units purchased by the GSEs.

Based on 2025 HMDA data, participating lenders account for $684 billion in eligible annual originations and more than $2.65 trillion in eligible annual servicing. In October, we launched the FICO Preferred Program distributed by our participating tri-merge resellers. Enrolled lenders and brokers that commit to the program will have no 2027 wholesale mortgage price increase for the FICO score and will receive a bundled classic FICO Score and FICO Score 10T.

With this program, we're ensuring lenders have access to the trusted and predictive tools they need to assess risk with confidence. Better risk decisions strengthen the mortgage market and help lenders responsibly expand access to credit, helping more Americans achieve the dream of homeownership.

To date, as shown on page 11, we've demonstrated demand for this program by several announcements. We expect resellers to continue signing participants. And although we don't anticipate announcing all participants, we do expect to provide periodic updates on program uptake and demand.

We've also made significant strides with our software innovation. Early in October, we achieved two key milestones in our software business: First, general availability of the next-generation FICO platform and the launch of Enterprise Fraud Solution, which we call EFS; and second, FICO-focused sequence model together on the FICO platform.

With the next-generation FICO platform customers gained three connected capabilities on a single platform: First, the platform provides an always-on real-time view of their own customers. Second, the platform gives business teams greater agency while reducing dependence on traditional IT release cycles. Third, the platform provides a closed feedback loop giving customers the evidence needed to improve decision quality over time rather than relying on systems to flag issues and hand them off.

The launch of Enterprise Fraud Solution and FICO Focused Sequence Model together on FICO platform gives financial institutions connected and comprehensive fraud protection across the entire customer life cycle. The solution is designed to protect financial institutions globally from fraud losses, customer impact, and regulatory liability. This is critical at a time where losses are escalating from scams and authorized push payment fraud, money mules, first-party fraud and card and real-time payments fraud.

Our solution is also designed to deal with the threats and challenges faced by agentic commerce and agentic attacks and threats. It allows banks to integrate data and orchestrate decisions in real time more precisely than ever before. It unifies transaction behavior across every channel into one real-time profile that follows customers throughout their journey. The result is proactive protection, fewer false positives, and less friction for genuine customers.

I'm proud of these accomplishments and industry analysts recognize them as well. In September, FICO was named Leader in the IDC MarketScape: Worldwide Decision Intelligence Platforms 2026 Vendor Assessment.

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FICO was recognized for its strength in dynamic profiling and expanding ecosystem and marketplace and agentic policy offering. In fiscal '27, we plan to advance our direct and indirect distribution and invest to capture market opportunities emerging from these innovations, both in our software and scoring business.

I'll now hand it over to Steve to provide further financial details.

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

Thanks, Will, and good afternoon, everyone. As Will mentioned, our software -- our Scores segment revenues for the quarter were $414 million, up 33% from the prior year. As shown on Page 17 of our presentation, B2B revenues were up 39%, primarily attributable to higher mortgage origination scores unit price, partially offset by a decline in mortgage originations volumes. Our B2C revenues were up 3% versus the prior year, primarily due to growth in our indirect channel.

Turning to B2B origination Scores revenues. Our fourth quarter mortgage originations revenue was up 72%. Volumes in Q4 declined by high single digits versus the prior year, driven by elevated interest rates. In the quarter, we saw no meaningful loss of volume to competition.

In addition, we observed a mix shift from first-lien mortgages to HELOC as Q4 HELOC volume growth accelerated from Q3 level. Because the average price for HELOC is lower than first-lien mortgages, our total mortgage origination scores average price declined sequentially from Q3 to Q4.

Refer to Page 18 to see a comparison to the prior quarter mortgage originations revenue growth. Mortgage originations revenue accounted for 67% of B2B revenues and 58% of total Scores revenues in Q4. Auto originations revenue was up 11%, and credit card, personal loan and other originations revenue was up 12% versus the prior year.

For your reference, page 19 of our presentation provides quarterly trending for Scores segment metrics. Turning to our Software segment.

Our software ACV bookings for the quarter were $45 million, as shown on page 20 of our presentation. On a trailing 12-month basis, ACV bookings reached $140 million this quarter, an increase of 36% from the same period last year. This is the strongest annual performance in FICO history, and we continue to see strength in our sales pipeline.

Our total software ARR, shown on page 21, was $851 million, a 14% increase over the prior year. Platform ARR grew 72% versus the prior year to $453 million and now represents 53% of our total Q4 '26 ARR, while non-platform declined 18% to $398 million this quarter. Excluding migrations, platform ARR growth was in the mid-40% range, reflecting strong execution and new customer wins as well as expanded use cases and volumes from existing customers.

In our non-platform business, ARR declined year-over-year, driven mostly by migrations and to a lesser extent, end-of-life products. Our dollar-based net retention rate in the quarter was 112%. Platform NRR was 156%, while our non-platform NRR was 82%. Platform NRR was driven by a combination of new use cases, increased usage of existing cases and some migrations.

Fourth quarter Software revenues, detailed on page 22, were $243 million, up 19% versus the prior year. Within the segment, our SaaS revenues grew 29%, driven by continued strength in FICO platform with a smaller contribution from CCS. On-premises revenue grew 13%, driven by higher point-in-time revenues compared to the prior year quarter.

Platform revenues grew 84%, driven by success in our land and expand strategy and by migrations. Excluding migrations, platform revenues grew in the low 50% range. Non-platform revenues declined 12%, driven mainly by migrations, offset partially by higher point-in-time revenue. As a reminder, platform and non-platform revenues exclude professional services revenues.

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From a regional perspective, 89% of total company revenues this quarter were derived from our Americas region, which is a combination of our North America and Latin American regions. Our EMEA region generated 7% of revenues and the Asia Pacific region delivered 4%. Operating expense was $390 million, up 25% from the third quarter.

That includes a $65 million accrual for the proposed settlement of the antitrust class action lawsuit related to our Scores business and a $27 million restructuring charge for our workforce reduction. Both are excluded from the non-GAAP results and are shown on pages 23 and 24.

Operating expense, excluding these items, was $298 million for the quarter, down 4% sequentially on lower personnel costs. Excluding these items for the full year, expense grew 12% to $1.177 billion. Through strategic partnerships with third parties and AI-driven efficiencies within our FICO platform, we anticipate a significant decline in professional services revenue for FY27. And as such, professional services roles were impacted as part of the recent restructuring.

In FY27, we plan to continue to shape our workforce around the skills our strategy requires, hiring for the capabilities we need and investing in AI tools that make our teams more productive. Other income and expense for Q4 was a net expense of $29 million. This included an interest expense of $78 million, up from the prior quarter reflecting a full quarter of interest on the June 2026 term loan that funded our accelerated share repurchase. It also included a $48 million non-operating gain on the sale of a minority equity investment, which is excluded from our non-GAAP results.

Our non-GAAP operating margin, as shown on Page 25, was 61% for the quarter compared with 54% in the same quarter last year. Our full year non-GAAP operating margin was 61% compared to 55% in the prior year, an improvement of approximately 600 basis points.

The effective tax rate for the quarter was 26.3%. Our full year net effective tax rate was 24.1%, while the operating tax rate was 26%. As a reminder, the key differences between the operating tax rate and net effective tax rate was a $17 million excess tax benefit. In FY27, we expect a full year operating tax rate of 26%.

At the end of the quarter, we had $269 million in cash and marketable investments. Our total debt at quarter end was $5.26 billion with a weighted average interest rate of 5.64%. As of September 30, 2026, 64% of our debt was held in senior notes, while 36% of our debt was held in term loans or a balance on a revolving line of credit, both of which are repayable at any time.

We repurchased $3.028 billion of stock in FY

26, which represented approximately 10% of shares outstanding from the end of fiscal '25. And as Will highlighted, although we continue to pay down debt, we continue to view share repurchases as an attractive use of cash.

And with that, I'll turn it back to Will for comments.

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

Thanks, Steve. We are transitioning to custom mortgage originations pricing tailored to the individual needs of our customers. One bespoke pricing program, the FICO preferred program, has had several deals already announced, and we continue to work with others on programs that will cover calendar year 2027. At the same time, elevated interest rates and ongoing affordability challenges continue to weigh on the mortgage market, keeping loan originations below historical norms.

We are in the middle of this pricing transition where programs and agreements are still being finalized, and the outcomes of mortgage market challenges are uncertain. Because of these factors, we are not providing fiscal year 2027 guidance at this time. I recognize that this is not what you were expecting to hear from us today.

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And I want to emphasize that it does not reflect a change in our long-term confidence in our business. FICO closed fiscal 2026 as the most successful year in our history, and the foundation behind those results is durable.

For more than 70 years, FICO has been the trusted backbone of high-stakes decision-making, and we expect to remain the industry standard in credit scoring and a leader in AI decisioning intelligence platforms for financial services. We feel positive about the long-term outlook for our business, and we remain focused on executing our strategy with discipline.

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

Dave Singleton - *Fair Isaac Corporation - Head of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Manav Patnaik, Barclays.

Manav Patnaik - *Barclays Services Corp - Analyst*

Will, I was just hoping in terms of the custom pricing program you're referring to. I know you mentioned preferred a few times. I'm just wondering, looking into next year, how many different programs do you think you're going to have there? And if you can give us a little bit of color, and how we should think about that?

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

Well, there are a number of different programs, some of which we've announced and some of which we're still working on. And we will make additional announcements as appropriate. But there are multiple programs.

Manav Patnaik - *Barclays Services Corp - Analyst*

Okay. Any just, I guess, broad color on how the -- like it sounds like preferred program is your preferred target, though?

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

Manav, I -- for some reason, the questions are coming through very muffled. Could you just repeat that, please?

Manav Patnaik - *Barclays Services Corp - Analyst*

Just a question around the preferred program being your preferred program as well or not necessarily?

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

Can you understand him?

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Dave Singleton - *Fair Isaac Corporation - Head of IR*

I think he's just asking a question about pricing, and he wants to know about the preferred program is something we think that most customers will take.

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

So the preferred program, okay, yes, I'm sorry, I couldn't really hear your question, Manav. The preferred program is enjoying popularity and we're in conversations with many lenders and originators about the preferred program and other options. We've had some uptake, as you've seen in our recent announcements. We anticipate additional uptake. So yes, I would say that the preferred program is a popular one, though not the only one.

Operator

Simon Clinch, Rothschild & Co Redburn.

Simon Clinch - *Redburn Partners LLP - Equity Analyst*

I wanted to just follow up on Manav's line of question there, Will. I mean, if -- maybe you could talk about the kind of pain points that you're trying to solve with the various number of different programs that you're exploring. And I was wondering in these discussions, whether or not your lender partners or lender customers actually sort of raising the -- are using, say, VantageScore, as a point of negotiation or anything like that? I was just curious about that kind of color.

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

Well, I'm not sure I would describe anything we're doing is responding to pain points. I think that the way to think about this is, historically, we've had a one-size-fits-all, and it's been -- here's the score price, and here you go. And pretty much everybody had the same program. And we're in a very different kind of a mindset now.

I think we're trying to be more responsive to our customers, to our customers' needs, give them more options, more flexibility, let them do more of what they want to do. And as long as we can accommodate that, we're really flexible about how we take our IP to market. And as you know, just from -- over the last year or two, we've talked about a lot of alternative models for bringing our IP to market.

And so this is the beginning of some of that. I think that if you look at the construct of the preferred program, which we've announced, I think it's pretty obvious why it's appealing to the customers who signed up for it.

And I think that some of the other programs are designed to appeal to other needs.

Simon Clinch - *Redburn Partners LLP - Equity Analyst*

Just a follow up, Will. On the preferred program. Is there like a contracted period, which -- like do you have to sign up for a year? Is it threen years? Or is it various depending on the customer?

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

The term varies depending on the customer and the specific arrangement. As I said, these things are really bespoke, they're very customized. There are some annual arrangements, and then there are other arrangements. So yes, I would say that it's not one size fits all. It's very custom and tailored to each customer's needs.

Operator

Jason Haas, Wells Fargo.

Jason Haas - *Wells Fargo Securities LLC - Analyst*

I'm curious if you're seeing any issues that lenders are having in terms of like downstream uses of VantageScore, which would cause them to need to use FICO, whether it's the MBS market or anything else? Anything that you could point to there?

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

Well, all this data is public and available, and I'd encourage you to go and look at it yourselves. Near as we can tell, FICO is used in most cases in the secondary market. And so any kind of problems with Vantage there, I think you got a consult with Vantage.

Jason Haas - *Wells Fargo Securities LLC - Analyst*

Got it. Okay. We'll take a look there. And then can you just give us an update on timeline for implementation of the direct licensing program? And also any expectation for 10T approval by the FHFA?

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

Sure. I appreciate those questions. So I'll take them one at a time. So direct license program, the preferred program that we announced recently is a direct license program. It's done through direct license, through the tri-merge resellers.

So that is an example of the direct license program up and running. The only thing that's not happening in that from a direct license standpoint that we've talked about previously is the computation of the score by the tri-merge resellers, that's still pending approval from the GSEs. But in all other respects, the direct license program is live.

We -- and we're really excited and pleased with this. I mean, our goal was to develop an alternate channel for bringing our IP to market to be able to work with the tri-merge resellers. And that's exactly what's occurring now.

And it's -- obviously, it's terrific for bringing mortgage scores to market, and that's their primary business. But it's also an opportunity for us to bring other kinds of IP to market. And we have -- in the tri-merge resellers, we have very willing and enthusiastic channel partners. So the direct license program is live. It's just not live in all the incarnations we've talked about.

In terms of 10T, is still under review by the GSEs. It was approved in 2022. And now it's going through another cycle of evaluation with the GSEs. You have access to the third-party studies and data that have been made public.

You know that 10T is the most predictive score out there. It is a modern credit score. It does incorporate rental data. It is most predictive on credit default risk. It's most predictive on prepayment risk. So we're very excited about the value proposition represented by 10T.

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It's being used in some parts of the market, but not all. So in the non-conforming market, we have over 80 lenders who've now taken it, are using it. It's either from an evaluation standpoint or some of them are making credit decisions with it.

You know that the FHA has decided to use 10T starting January 1, 2027, and that's in their total credit decisioning. So we are still waiting for GSE approval and, I guess, implementation because theoretically, it's been approved.It's just not implemented. But we have a lot of optimism about the future of 10T.

Operator

Jeff Meuler, Baird.

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

Is anything resembling the prior performance model still on the list of program options for calendar year '27 pricing?

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

Yes. We have not withdrawn that model. That model we described it last year, and we're excited about getting it to market. And it's still pending certification and approval from the GSEs, but we have not, in any way, formally withdrawn that model. Now whether that model is superseded by other models that we're working with right now, that's for the market to decide. But the performance model is still an option.

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

Got it. And do any of the new programs changed the client use or reuse rights of FICO scores? And as a part of that, do you tap into any new payer types beyond the underwriting lender?

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

The short answer to that is not at this time.

Operator

Surinder Thind, Jefferies.

Surinder Thind - *Jefferies LLC - Analyst*

Will, earlier you mentioned just the 10T going live with FHFA at the beginning of the new year in '27. Can you maybe help us understand how the FHA uses the credit scores or how many pulls? Because at the same time, my understanding is that VS4 will also go live on January 1. And now you have a situation where there's multiple scores available to the FHA.

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

The FHA uses 10T as part of a broader credit evaluation. So it's part of the total credit evaluation.

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Surinder Thind - *Jefferies LLC - Analyst*

Got it. I guess is the implication that they're going to pull both scores. Is that -- I'm just trying to understand how the total credit evaluation works. I guess that was --

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

I can't tell you exactly how that's going to work. A lot of that is their secret sauce.

Surinder Thind - *Jefferies LLC - Analyst*

Got it. Okay. That's helpful or understood. And then I guess in terms of just any update in terms of conversations with the regulators at this point, whether it's, I guess, the approval for 10T or the implementation, I guess, technically or the tri-merge to bi-merge. Just any other topics that are that are up in the air or just what may be going on behind the scenes, if there's anything to note or highlight there?

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

I wish there were things to note and highlight there. We continue to have conversations with them, and there is progress being made and they're working through their own process. And I'm confident that we'll get to where we need to get to, but I don't really have an update for you right now.

Operator

Ashish Sabadra, RBC Capital Markets.

Ashish Sabadra - *RBC Capital Markets Inc - Analyst*

Another question on pricing. As you think about all these different pricing strategies, net-net, even on a blended basis, would pricing be flat, up, or down next year depending on different adoption profiles for different strategies?

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

Ashish, I guess I can't blame you for asking the question, but maybe it's time for me just to explain a little bit of a change in philosophy, and how we talk about our pricing and our programs and so on.

I know -- I think you all know. It is no secret that transparency and detail on our programs and pricing have not been particularly helpful for FICO. We were of a view for many years that because the FICO score at $10 or $4.95 or whatever we were charging, was such a tiny fraction of overall closing costs.

We really didn't think that the price was a very big deal. We thought that the value so far exceeded the price that why not share details around the pricing, just so that everyone understands how little it is in the scheme of things.

And as you all know from watching events over the last several years, we've really been attacked for what we consider to be not very good reasons. We're attacked because we're transparent and clear about our score price. And as you all know, the credit files costs a lot more, credit evaluation costs are much more. In fact, every other element of the closing is a lot more than what FICO charges. And yet somehow FICO has become the poster child for affordability in housing, which is just a crazy thing.

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So internally, we've had a lot of conversations about, has this transparency been helpful? And the conclusion is, no. It has not been helpful. And I think you guys know that we've probably been in the top decile of open transparent, help everyone outside understand what we're doing inside. But it hasn't really worked very well for us.

And so on a go-forward basis, our intention is to not share every detail. We're not going to share every pricing program. We're not going to share what the prices are. We're not going to share all the terms. They're going to be customized by customer to meet customer needs. And we're just not going to provide all that information.

So to your very specific question, as the average price of FICO going up, down or sideways, we're not going to answer that. And you guys who have been watching us and watching the industry can understand exactly why we're not going to answer that.

Ashish Sabadra - *RBC Capital Markets Inc - Analyst*

That's very helpful color. Maybe just, again, on the EPS, we appreciate the current environment makes formal guidance challenging. But just Wondering if you could provide some high-level goalpost around EPS expectations. Is that -- can you continue to drive earnings growth in '27 with all these moving pieces?

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

We're not going to provide guidance at this time. Now as things come into more focus as we work through the different programs and pricing and terms and watch industry volumes and so on, we'll be in a better position to share guidance with you, but we're not ready to do that at this time.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - *Deutsche Bank AG - Analyst*

Okay. I'm going to try and ask the same question in a different way. I guess, Will, you said in response to a prior question that it's obvious that the preferred program is appealing to customers, and it does seem appealing. And I'm just curious as we're thinking about the model and about 2027, like what are some of the reasons that you might be hearing why someone might not want to sign up for the preferred program, and you said there may be other programs that are designed to appeal to those other needs.

So maybe talk about some of those other needs and give us some perspective on what you're seeing? And I guess, is the worst-case scenario essentially that there is no pricing and everyone goes with the preferred program in addition to just lower volumes due to mortgage rates?

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

Well, so I can't tell you what the uptake rate will be on the preferred program. Yes, it is popular. And we're happy that it is and for some of the major lenders who are signing up, we're sharing that with you all. So you have a sense for the popularity of it. But we're not going to go into details on the other programs.

And for the reasons that we just explained, we're just -- I'm sorry, that we're not going to be in a position to give you that detail.

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Faiza Alwy - *Deutsche Bank AG - Analyst*

Okay. Okay. Understood. Let me ask you then, obviously, you've had this restructuring program. Maybe you can talk about the level of savings that we should expect from the restructuring program in 2027?

Maybe as we think about just the actual reported savings versus what the run rate savings might be exiting the year? And how we should think about -- will those flow through to the bottom line? Or should we expect those to be reinvested?

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

Yes. I mean, I think you can expect a lot of it we invested. As you saw over the course of the year, we had -- our expenses ramped up throughout the year. We bought a couple of smaller companies and absorb those expenses. We've seen some expenses in AI.

So a lot of this is reallocating our resources. And as we go live with Northstar project, there's things that we were done with, right?

And we talked a little bit about professional services. We don't need as much implementation. So this is a great opportunity to reallocate some resources into distribution and other things. So when I'm going to talk about specific dollar amounts at this point, we'll discuss that more as we move through the year. But that's a lot of -- it's just a general reevaluation of our needs and reallocating the resources accordingly.

Operator

Alexander Hess, JPMorgan.

Alexander Hess - *JPMorgan Chase & Co. - Analyst*

I wanted to just start with the preferred program. I know there's been a lot of questions on it. But my understanding, and correct me if this is wrong, guys, is that the preferred program involves you guys holding price at $10, but -- and giving the client both a classic FICO and a FICO 10T inquiry score for the price of one. But the existence of carrot, if you'll excuse the metaphor, sort of implies the existence of a stick. And I think that's what people are trying to get at. Again, sorry for the metaphor, but how to think about why somebody would choose this versus another program at a high level? Or anything you can provide there would be great.

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

Yes. I guess I don't really see the stick. There's nothing exclusive about the preferred program. I mean you can participate in the preferred program and still buy, VantageScore, you can still do all the gaming that has been talked about in the industry, which I think is a real thing. But there's -- so I don't really see a stick.

And -- so I think there's a lot of popularity there because it looks a lot like business as usual. It looks a lot like what our customers have been doing. And it does provide a level of price certainty and price stability for customers. So that part that you mentioned is absolutely accurate. But I think that's why they're going for it.

Alexander Hess - *JPMorgan Chase & Co. - Analyst*

Understood. Maybe just to reframe my question a little bit. I think, well, what I was trying to get at was, the customer is being asked to give up something of value, which is committing to FICO for every pull. So that was sort of what I thought was the carrot was flat pricing in exchange for that, but maybe there was -- that implies something else about the -- what other programs are available.

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I hope you -- that's where my thinking was. But maybe to switch gears and ask Steve a question. Steve, I know you're not providing guidance at this time, but just any dimensions, any color you can share about what you expect ex mortgage for the business in the fiscal year ahead. Just some thoughts there? I know we're not talking specifically on mortgage loan guide --

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

Yes, we don't. Frankly, it's -- as you're familiar with us from following us for several years. With the way we guide is we guide the whole company. So to parse the piece of that out, we were able to guide the whole company because we have two different pieces, and we can kind of balance puts and takes on both sides. So it's pretty difficult to guide half of it, and we're not going to do that at this point.

Operator

George Tong, Goldman Sachs.

George K. Tong - *The Goldman Sachs Group, Inc. - Analyst*

You're using several bespoke programs to secure mortgage volumes under various different pricing arrangements. Across those programs, what portion of 2027 mortgage originations do you expect to have under committed agreements?

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

George, I guess, I would just go back to the comments I made earlier about how we're not going to break out all this kind of detail. We're not going to provide details on these other programs or the pricing on the other programs or the percent that goes into one program versus another. It's just something we're not prepared to do. Hasn't helped us in the past. We don't believe it's helpful in the future.

So I'm sorry, I can't answer that question for you.

George K. Tong - *The Goldman Sachs Group, Inc. - Analyst*

Understood. And then with respect to guidance, what specifically needs to fall into place for you to provide fiscal 2027 guidance? And is it possible you won't provide guidance at any point this year?

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

I think it's likely that we will be providing guidance as we have more of the pricing out. I mean, remember, our fiscal starts 10/1, and our pricing happens Jan 1. And so we're right now in the middle of negotiations, discussions on different kinds of arrangements with a whole bunch of different lenders and originators. And so now is not a good time for us to be -- especially given all the fact that there are multiple programs, not a good time for us to be trying to put a lot of fine points on it. I think as we progress through the year, we'll be in a much better position to do that.

Operator

Ryan Griffin, BMO Capital Markets.

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Ryan Griffin - *Bank of Montreal - Analyst*

Just wondering if we should be thinking about 2027 as a year for 10T adoption in the markets where it's available? And then what are you hearing from the lenders ahead of the January 1 date on the preference versus 10T and VantageScore.

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

I think 10T will -- 10T is the best score available. I mean it is far and away the best score available, and it's making inroads a bit here, a bit there, a bit here, a bit there. And yes, everyone is waiting for GSEs to sign off finally so that the conforming market can use it. But all the trend and momentum is in the direction of 10T adoption, and I think 2027 will be a big year for 10T.

Ryan Griffin - *Bank of Montreal - Analyst*

And then can you provide any updated thoughts on just score gaming and the unified LLPA grids?

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

Yes. A couple of comments. We said before and we continue to believe that gaming is real. I think when you have a two score system, one score or the other score is inevitably going to provide -- sometimes it's a tie, but sometimes one score provides a better price than the other score. So the gaming is real.

And I think that it would be naive to expect it to go away under today's environment. In terms of a unified LLPA grid, I think if you talk to anyone in the industry, with kind of a data and science background, they would tell you that a unified grid doesn't make a lot of sense. The combination of two very different scores in a single grid means that you're going to be underpricing one or the other of them.

And in this case, Vantage is not being priced properly for risk. It's being underpriced. That's just a reality. I think we all know why that's happening. And I assume also that sooner or later, adjustments will be made because it's not very good for the GSEs.

There's a subsidy involved when you underprice risk. So we will see how this all unfolds. But the gaming is real, absolutely.

Operator

Owen Lau, Clear Street.

Owen Lau - *Clear Street - Analyst*

It doesn't look like people are interested in software, but platform ARR grew 72% year-over-year. Could you please talk about the traction there? What are the use cases that resonate with clients driving this strength? It doesn't look like AI has been impacting this business.

Nikhil Behl - *Fair Isaac Corporation - Executive Vice President - Software*

Owen. This is Nikhil Behl. I run the software business here at FICO. Thanks for your question. So Owen, we are predominantly on the retail banking side of most financial institutions globally.

And we provide intelligent solutions that they can implement across the entire consumer life cycle. And we see fairly good adoption of the FICO platform across multi segments of that life cycle. So whether it's in originations or in customer management or in fraud protection or

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in compliance or in credit collections, we go across the life cycle. And we've seen really good adoption for the platform across those use cases, particularly because they are starting to find real benefit in the platform as they expand from their original land use case.

The more use cases they put on the platform, the better each and every platform use case gets both the initial solutions as well as the incremental solutions that they're adding on top of it. And as our customers start to see the benefit of that strategy and that investment, their uptake from an expand perspective continues to get better. And we're seeing that strategy work, which is why you're actually seeing our numbers perform the way in which they're performing.

Owen Lau - *Clear Street - Analyst*

Got it. Just a quick follow up, Will. Does your custom pricing strategy only applies to mortgage, or it also includes like card, auto and others?

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

It's primarily mortgage, but we are exploring all options. I think that we want to be responsive to the market. We want to be responsive to our customers. And we have, over the years, tried different kinds of things on a kind of a one-off basis with different customers. But I think there's a real value for us in customizing the delivery of our IP to meet the needs of individual customers.

And so I think you'll see more and more of that. But the programs we've been talking about today are primarily mortgage.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Hill River Capital Inc - Analyst*

To the best that you can gather, how is your market share trending in non-conforming mortgages, auto and credit card? Is VantageScore's introduction into the conforming mortgage ecosystem impacted other parts of the Scores business?

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

We have not seen any, no.

Patrick O'Shaughnessy - *Hill River Capital Inc - Analyst*

All right. I appreciate that. And then a question on software and your restructuring efforts there. Do you have like a targeted margin profile that you want to end up with on the other side of the restructuring effort?

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

We do, although I wouldn't say that we've been public about it. We don't publish a target. I think we've always said and we continue to say that our goal is to balance growth with margin expansion. And right now, we're achieving both. So it's kind of a two-pronged effort where we want to see the revenue growth rates continue at the very high.

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They may not stay at the high levels that they're at right now. I mean they're quite high. For a software company, our size to be growing at our speed is fairly remarkable. But as we scale our margins improve, and so we anticipate both improvement in margin and improvement in growth rate.

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

Just to add to that, the restructuring was not done with a specific margin target in mind. It really was done serve the needs of the business and to reallocate resources, like I said before. It's an evolution of that business. And as it evolves, we allocate resources in different ways. It wasn't like we were trying to take a certain amount of expense to hit a certain margin number.

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

I mean, I would say we invite you to evaluate us by the Rule of 40.

Operator

Kyle Peterson, Needham.

Kyle Peterson - *Needham & Company LLC - Analyst*

I wanted to stay on the software theme here. Obviously, in FY26, the platform ARR, even ex-migration seem to accelerate year-on-year as the year progressed, I guess. Is the 4Q kind of that mid-40s year-on-year growth rate? Is that a reasonable baseline to expect from here given the good things you guys have going on there? Or how should we think of the platform ARR growth ex-migrations?

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

Well, we don't -- we're not giving forward-looking views on the platform growth. Frankly, we've got some projections for it, but it's difficult to know exactly what quarters the numbers are going to be. But we do expect very high platform growth rates going forward into '27?

Nikhil Behl - *Fair Isaac Corporation - Executive Vice President - Software*

Our demand continues to remain strong, and our pipeline is strong as well, and we continue to expect to see good product market fit with our platform. And as Will mentioned earlier, we just launched our next-generation FICO platform, and we expect to see good uptake of that over the coming quarters.

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

And you see there's the high ACV bookings. Obviously, that leads to higher ARR next year.

Kyle Peterson - *Needham & Company LLC - Analyst*

Okay. Okay. And then I guess switching over to capital deployment. Obviously, you guys made a good dent in the term loan this quarter. Is there a -- whether it's a particular leverage ratio or kind of share price versus interest? Like how are you guys kind of thinking about what you're going to evaluate and when you guys might step back into the market for buybacks?

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

We certainly believe that our stock is quite a great value at these levels. We're -- because of the ASR, we're paying down some debt to get to a leverage ratio that's a little bit more comfortable. But you can absolutely expect us to be back in the market and using our free cash flow to retire shares.

And we're as committed as we've ever been and the opportunity, the margin for our stock is as great as it's ever been. And so you can count on us to be back in. But as we said before, this is a one or two-quarter thing while we bring down our leverage.

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

Yes. And we were able to bring it down quite a bit just this last quarter. Obviously, we're driving a lot of free cash flow, and our EBITDA is growing so that we delever pretty quickly. But we don't put a timeline on that, but we're -- in the meantime, we're trying to pay down as much as we can as quickly as we can.

Operator

Curtis Nagle, BofA.

Curtis Nagle - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Maybe I'll just start with the mortgage question and ask a question that's been asked maybe a bit differently. But on this transaction or transition, I should say, the bespoke pricing by customer, I suppose philosophically for FICO is the goal to optimize for pricing for volume? How should we think about that?

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

Well, I think we take it all into account. Obviously, we want to retain as much volume as we possibly can in the face of competition from Vantage. And the price is something that varies by program and is also designed around that. I mean, we certainly have profit, EPS commitments to our shareholders. And so that also is taken into account. And we try to optimize around both of those factors.

Curtis Nagle - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Okay. Fair enough. And then maybe somewhat of a mechanical question, but as we kind of talked about the software growth rates are impressive. What drove, I guess, just such a sharp and material acceleration in both the ARR and maybe more specifically the converted revenue in the fourth quarter?

Nikhil Behl - *Fair Isaac Corporation - Executive Vice President - Software*

ACV bookings.

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

Yes. I mean you've seen the bookings we've had for the last 1.5 years have been pretty grown pretty remarkably. And those things come on, you start to see an acceleration in ARR. And then we've had the migrations from off the platform onto the platform. And at the same time, there's some point in time revenue that can add to some lumpiness.

So if you take a look at all the different pieces, you can kind of parse us apart and see what's actually happening there. But we were really focused on the recurring revenue piece and the ARR growth that happens is that recurring revenue piece.

So we have a -- maybe Nikhil, you want to jump in on this, but we have a really good sales team that's taken the really good products we brought to market, and there's just a lot of demand in that space.

Nikhil Behl - *Fair Isaac Corporation - Executive Vice President - Software*

Yes, I would just go back to what I said earlier. I think we're seeing really good product market fit, and we're seeing our customers find value in the investments that they're making with FICO platform. In fact, I would say that it's -- we are recognized as the market leader.

If you look at Gartner, Forrester, or IDC, in all three of their AI decisioning platform studies, we are the market leader. And our customers are seeing the same thing. And the more they invest in the platform, the more return they get from the investment that they're putting on platform. So we've been seeing this momentum building over the course of the last 6 quarters or so, and we continue to see strong momentum in the future.

Operator

Scott Wurtzel, Wolfe Research.

Scott Wurtzel - *Wolfe Research LLC - Analyst*

Just on sort of the outlook here and I understand the uncertainty right now around how pricing is going to shake out. But just wondering if you can kind of help give us any directional guidance on what you're assuming for volumes on the mortgage side for this year.

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

No. We never have given that our kind of internal estimates on that out, and we're not going to start now. I think that you should do your own assessment of where you think industry volumes will be and you can take it from there. But no, we don't share our internal estimates.

Operator

Kevin McVeigh, UBS.

Kevin McVeigh - *UBS AG - Analyst*

I guess, Will, you mentioned pricing with clients this year. Has that exercise change relative to prior years, just given the shift in delivery to DLP as opposed to historically through the credit bureaus. And any puts and takes around those conversations, or is it pretty much the same cadence?

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

Yes. Thank you for the question. It has changed quite a bit. So if you go back in time, say, five years ago, we did not have a dedicated score sales force. We didn't have direct relationships with the end customers who are consuming our scores.

We essentially went to market, dragged along by the bureaus, along with their credit data sales force. And so they would sell the credit file and the score for us. But we really had no efforts whatsoever of our own.

And several years ago, we came to a view that, that really didn't make a lot of sense given the importance of the business, given the importance of the IP to those who consume it. We didn't think that we're getting the full benefit of what our IP might do for end customers because it really wasn't being communicated as well as we would have liked.

And with all due respect to the bureaus, our channel partners, that wasn't their priority. I mean their priority is to sell their data and not to move FICO IP. And so we have very much changed the way we think about this over the last several years. We now have a dedicated software sales force. We now have direct relationships with the major customers for our Scores' IP.

We are bringing to them all kinds of innovation that they never saw before. We are constructing much more complex arrangements that include IP across different software, different scores verticals, so beyond mortgage and into other scores vertical, but also leveraging other IP that we have.

And so all of that has changed. And I would say for the better, very much for the better. Our customers are grateful for the attention they're getting from us. They're grateful for the opportunity to have input into our R&D and our IP development process. We have Scores Customer Advisory Board now where major players give us very, very direct feedback on the product, and what they'd like to see in future generations of it.

So all that has changed dramatically in the last three years. So, yes, I would say -- and I would say the relationships are very strong, and we're happy.

Kevin McVeigh - *UBS AG - Analyst*

Got it. And then just with some of the obviously pretty dramatic shift today post-election, anything you'd expect on the regulatory side?

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

I think your speculation is as good as ours. We're not in the business of speculating on political outcomes. Here's what I would say. I would say that the mortgage industry, multitrillion dollar industry, very, very important, relies on quality IP. All the models are built on quality IP, our IP.

All of the industry would like to see the IP strengthened. And so there's a lot of pent-up demand for 10T. I believe that this year 2027 and in future years, demand for our IP to help lenders make better credit decisions to help investors evaluate the quality of the paper that they're buying. All that is -- it only becomes more pronounced in the future than it is today.

And the tools that we're providing as a company to the industry, just keep getting sharper. We're getting better and better and better. Some of it is from leveraging incremental data sets, rental data is the example everyone talks about. But obviously, UltraFICO and the cash flow data we have there has a lot of signal in it. And I think that the appetite for what we do for using our IP to help with credit decisions is just getting stronger and stronger and stronger.

And again, because of the cost of the IP relative to the value of not making a bad decision in a loan, it's just huge. And so that's how I look at it is I think there's just continued appetite for advances in the technology, and we are at the forefront of that.

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Operator

Thank you. Ladies and gentlemen, we have reached the end of our time. This does conclude today's conference call. Thank you for participating. You may now disconnect.

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