SNIPER POINT CAPITAL

PRECISION. PATIENCE. CONVICTION.

FICO

The Best Competition Is None

Fair Isaac Corporation (NYSE: FICO)

RATING	PRICE TARGET (BASE)	UPSIDE / 5Y IRR
BUY	**$2,611**	**+158% / 32%**

LONG INVESTMENT MEMO

May 2026 | Strictly Confidential

Current Price: $1,010

Reverse-DCF mispricing | 10-yr P/S floor

Executive Summary

FICO is the kind of business great investors look for: a Buffett-style moat, the infrastructure backbone TCI covets, Greenblatt-level ROIC, and Valley Forge-style operational leverage. After a 22-year price freeze ending in 2018, management has lifted the all-in mortgage score price 16.7x in eight years — from \$0.60 to \$10 — with zero churn. The current setup is a textbook reflexive bust: a 48% drawdown driven by FHFA scrutiny has compressed a once-bubble multiple back through its 10-year median, while the underlying earnings power has accelerated.

At ~\$1,010, FICO trades at roughly the 10-year median price-to-sales multiple while the reverse DCF implies a ~7% revenue CAGR — less than half what consensus models and well under what management has just delivered (Q2 FY26 mortgage origination revenue was +127% y/y; FY26 guide raised to +23%). The mispricing is in the assumption, not the cash flows.

I rate FICO a high-conviction long. My base-case DCF target of \$2,611 implies +158% upside vs. the current ~\$1,010, with a base-case 5-year IRR of 32.1%. The structural pricing runway, defended by a near-monopoly market structure (~90% share, 99.5% of MBS denominated in FICO), extends another decade or more. The recently announced FICO 10T performance model (\$0.99 + \$65) neutralizes regulatory pressure at zero economic cost — a textbook competitive response that strengthens, rather than dilutes, the long-term thesis.

I. The Qualitative Thesis

A monopoly hidden in plain sight

FICO is to consumer credit what S&P Global is to corporate debt — the gatekeeper of trust and credibility in the financial system. Like Visa and Mastercard, it functions as essential infrastructure, facilitating the flow of trillions in financial decisions each year. Yet unlike Visa's duopoly, FICO operates with near-monopolistic strength, commanding roughly 90% market share in credit scoring and 99.5% of mortgage-backed securities denominated in FICO scores.

Its scores have become the standard language of credit risk — a universal rating that determines access and cost of capital for individuals and institutions alike. While VantageScore, created in 2006 by the three credit bureaus, offers the illusion of competition, it lacks the decades of embedded history that make FICO irreplaceable. The Q2 FY2026 earnings call put a precise number on this: per CFO Steve Weber, real VantageScore market share is approximately 2%. Per CEO Will Lansing on the non-conforming mortgage market: "the lenders use FICO Classic and they use FICO 10T, and they don't use Vantage."

As Jensen Huang noted when describing NVIDIA's dominance, "Even if we gave away our model for free, it wouldn't make sense to use the competitor." While poetically described by Huang for compute (which is ultimately a commodity), for FICO scores it is structurally real.

Pricing power, demonstrated and reaffirmed

FICO's pricing power is exceptional. After more than two decades without a price increase, management raised wholesale prices per bureau from ~\$0.60 to \$4.95 (+725%) with zero churn. The 2026 step to \$10 extends that move to 16.7x. The Q2 FY2026 print validates this in real time: mortgage origination revenues grew 127% year-over-year, primarily a function of price realization.

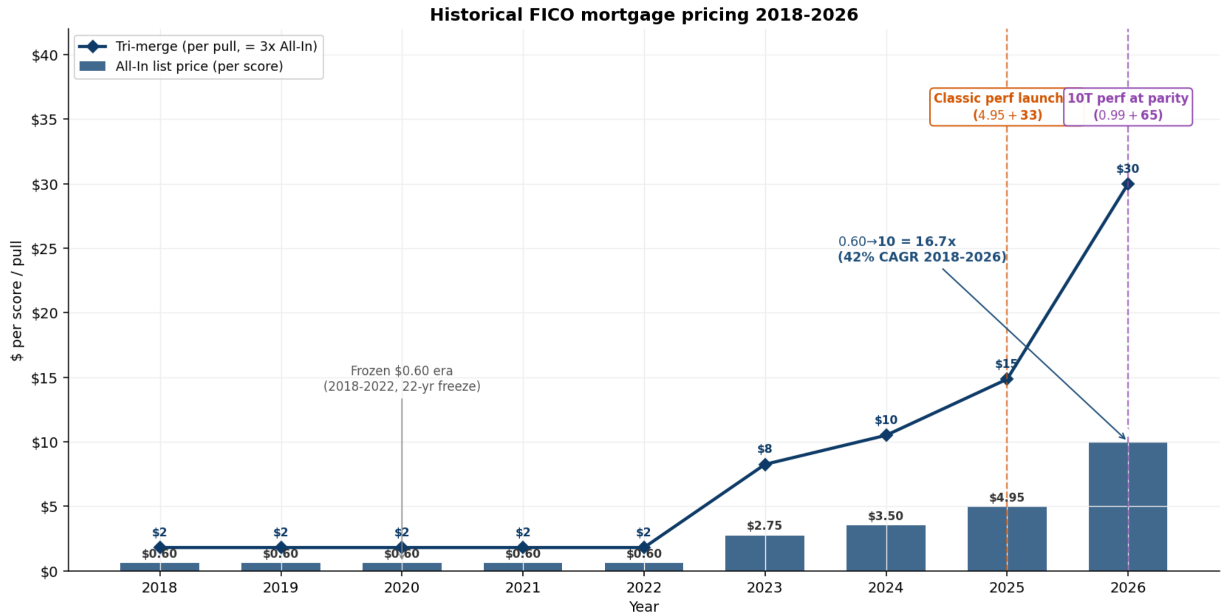

Figure 1 — Historical FICO mortgage pricing 2018-2026. Twenty-two years of frozen pricing at $0.60 ended in 2023; the all-in price has compounded at ~42% per year through 2026.

The reflexive setup

FICO has exhibited a clear reflexive dynamic. Aggressive pricing fueled rapid earnings growth, which attracted investors and drove the stock higher. As the stock re-rated, management doubled down on price increases, reinforcing the cycle. By early 2025, shares traded at 116x trailing earnings — a textbook reflexive bubble.

The cycle turned when FHFA Director Pulte targeted FICO's pricing power, prompting analysts to revise earnings downward and investors to unwind positions. The result was a textbook reflexive bust. Yet within this dynamic lies FICO's unique strength: its pricing ability is inherently reflexive, and the same forces that once inflated the bubble now work in reverse, setting the stage for a reflexive recovery as fundamentals and sentiment realign. At ~$1,010 today, the setup is the inverse of the 2024-25 bubble: high-conviction earnings power confronting a derated multiple.

II. The Fair-Value Framework

Anchoring to corporate-debt economics

The starting point is an RBC-style assumption: in corporate debt markets, agencies such as S&P Global and Moody's often charge roughly 6-7 bps of the underlying debt value. Using that as an analog, I applied the same framework to mortgage credit scoring. RBC's February 2026 management note made this comparison explicit:

> *"Benchmarking against credit rating agencies charging 5-8 basis points per rated loan suggests theoretical FICO Score values around $300 on a ~$435k average mortgage — though FICO is unlikely to reach such levels near-term."*
>
> *— Ashish Sabadra, RBC Capital Markets, February 1, 2026*

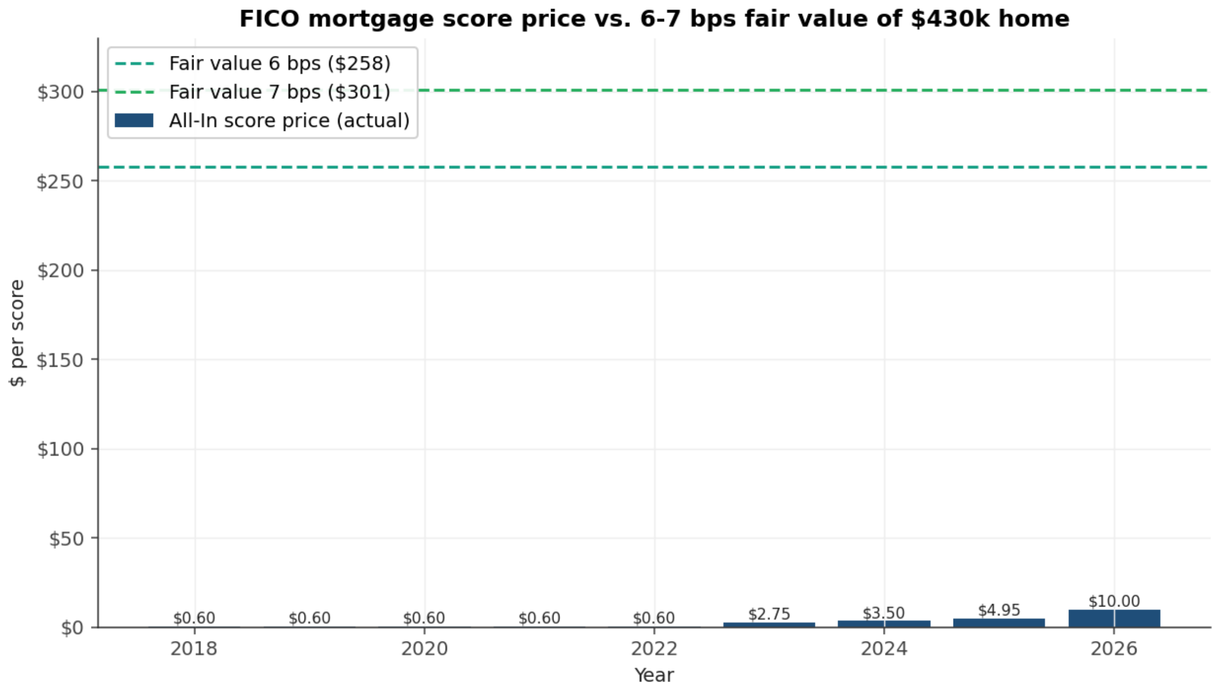

Figure 2 — Current FICO mortgage score price ($10 all-in) versus the implied 6-7 bps fair-value band on a $430k median home: $258-$301.

Forecasting the gap

Starting with a $430,000 median home value, I used the historical 20-year growth rate in home prices to forecast future home values. From there, I estimated what mortgage score pricing would look like over time if it were to converge toward a 6-7 bps fair-value range. By 2030, fair value sits at $338-$395 per pull; by 2036, $508-$593.

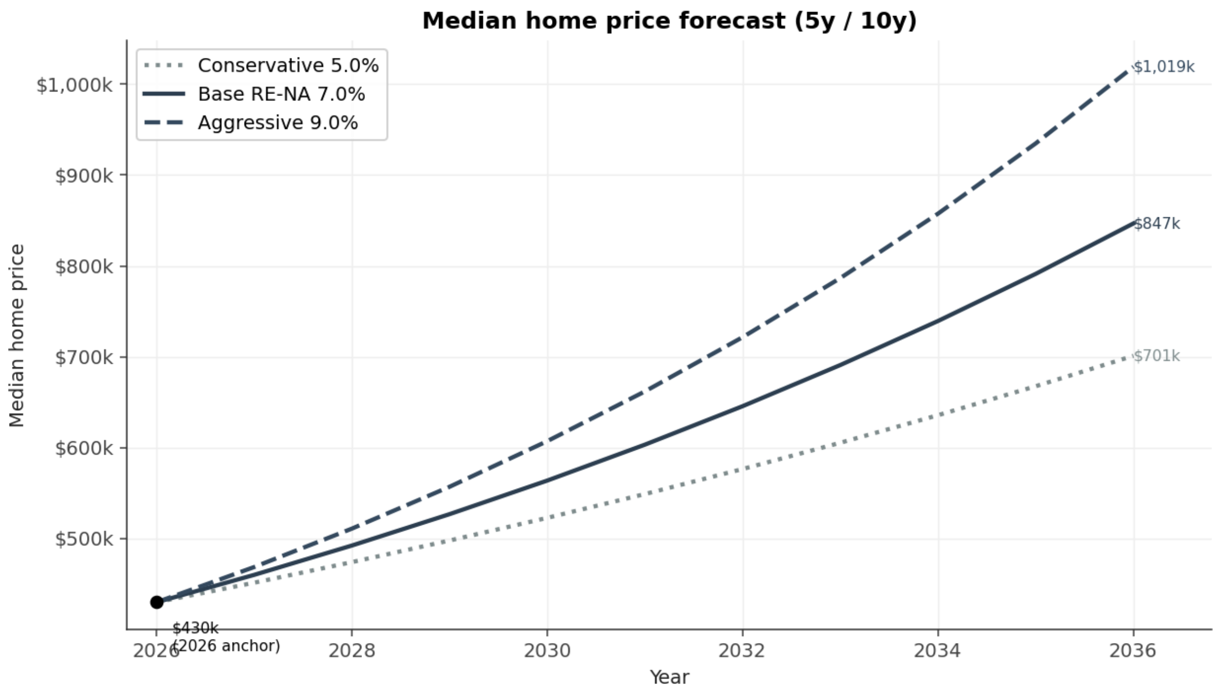

Figure 3 — Median home-price forecast at conservative, base, and aggressive growth rates.

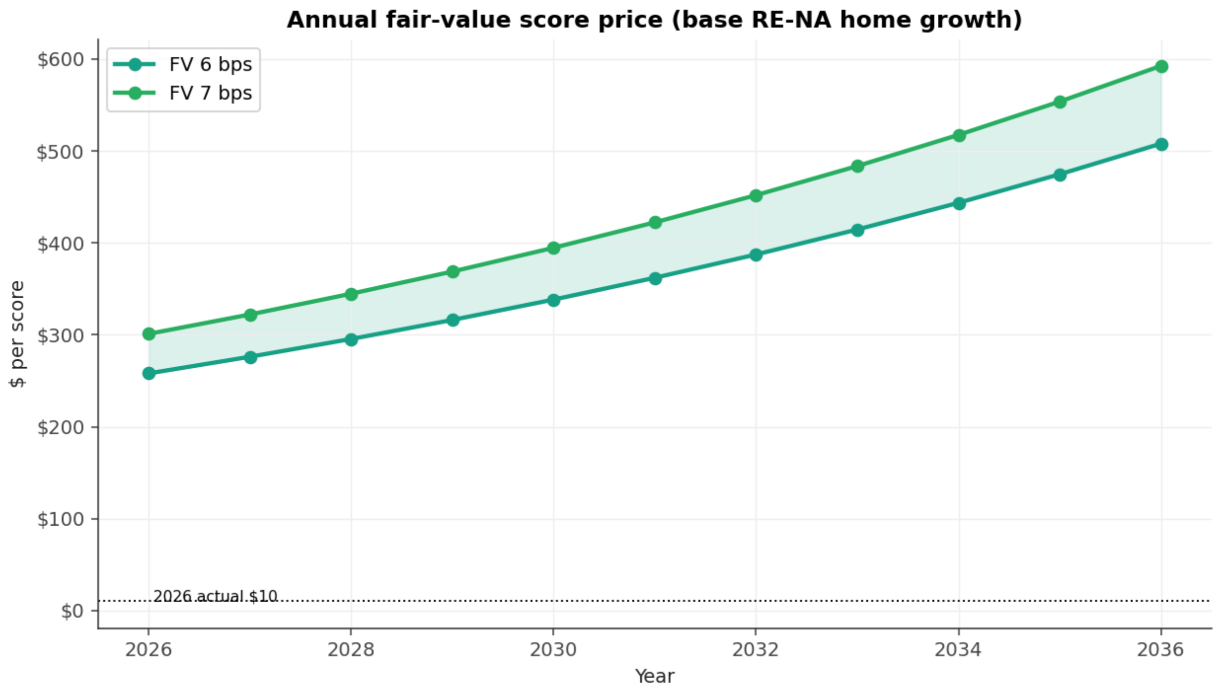

Figure 4 — Implied annual fair-value score price under base home-price growth (6 bps lower bound, 7 bps upper bound).

Projecting FICO's pricing trajectory

I calculated the CAGR of FICO mortgage score pricing since 2018, which comes out to ~42% annually. Using that growth rate, I projected how pricing could evolve across FICO's various models, including the all-in flat fee and the performance-based structures.

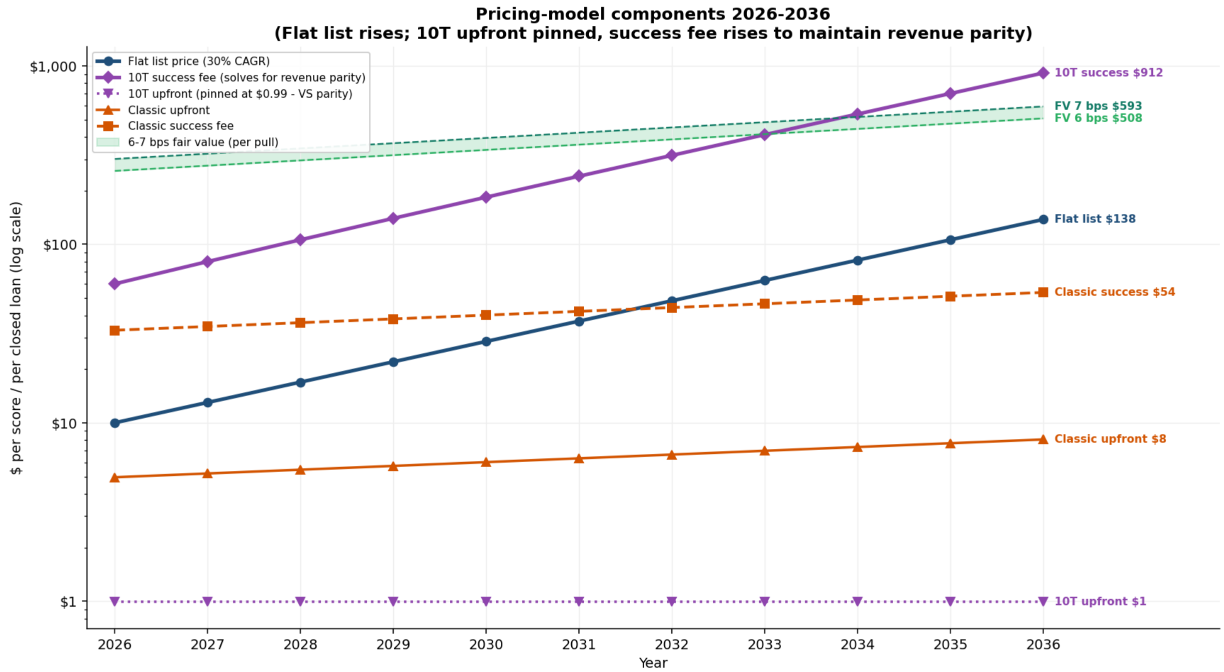

Figure 5 — Forward evolution of each pricing-model component, 2026-2036. The 10T upfront stays pinned at $0.99 (VantageScore parity); the success fee scales to maintain revenue neutrality with the rising flat list price.

The runway is a decade, not a quarter

The chart shows the gap between current pricing and implied fair value over time. In the upside case where pricing eventually converges toward fair value, the 10T structure would require a higher pricing CAGR to close the gap by 2030. More realistically, if management simply sustains pricing growth modestly above recent levels, pricing could approach fair-value parity by 2036-2037, implying potentially another decade of strong pricing compounding.

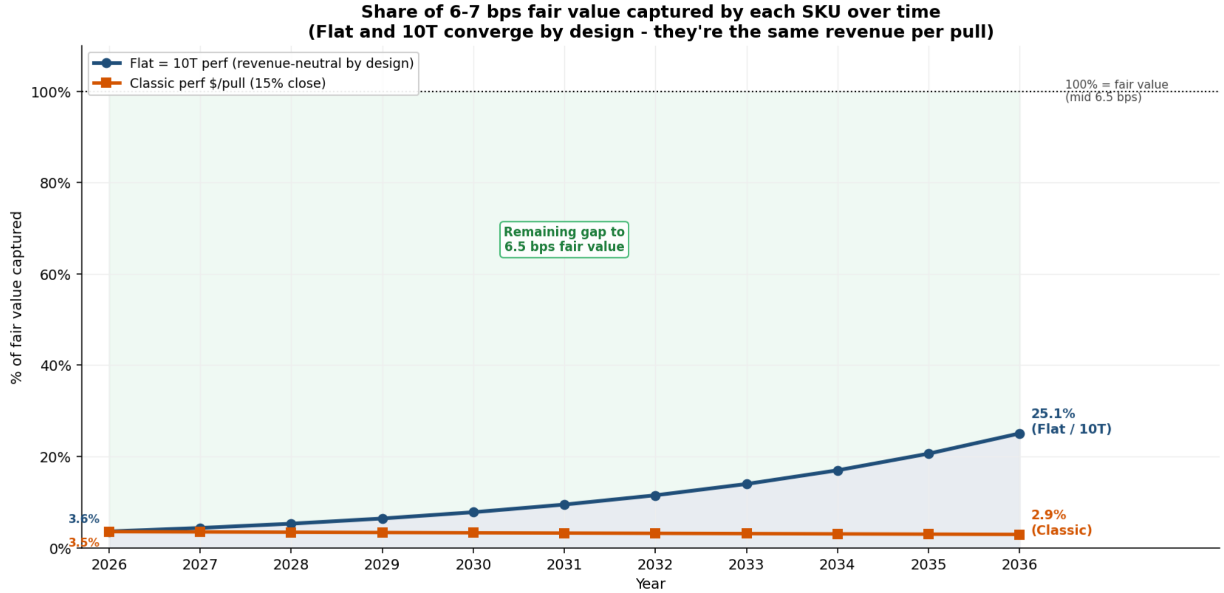

Figure 6 — Share of 6-7 bps fair value captured by each pricing model over time. Even at a 30% pricing CAGR, only ~25% of fair value is captured by 2036, underscoring the durability of the runway.

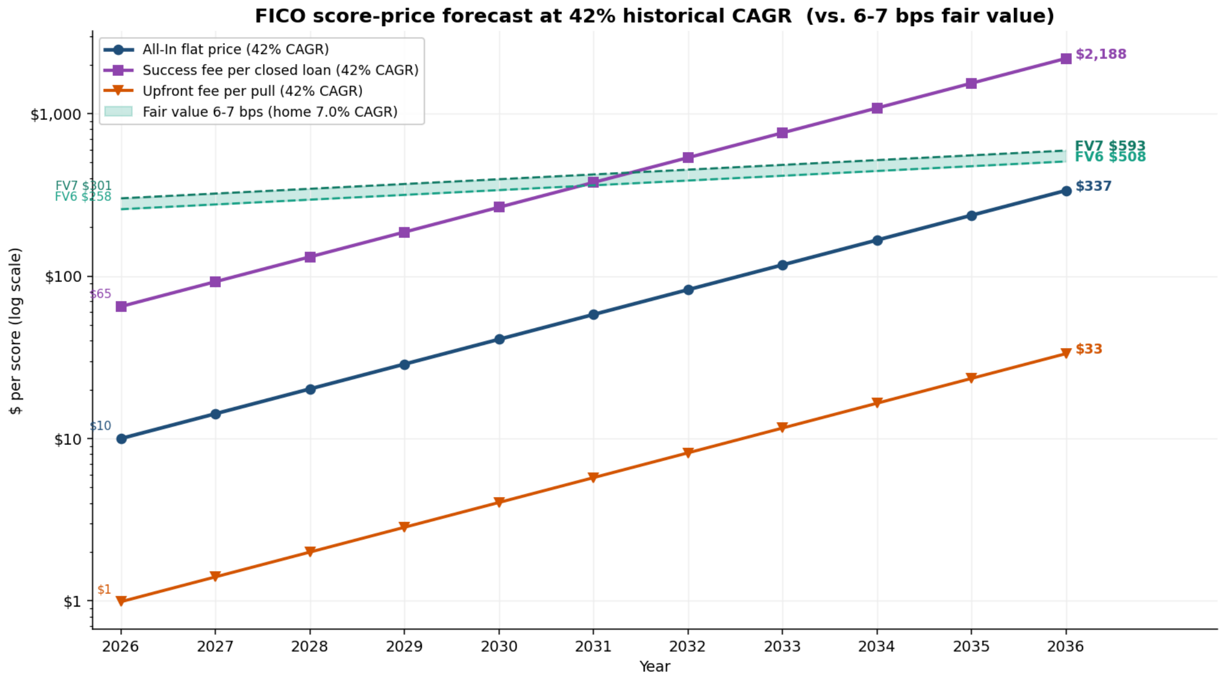

Figure 7 — Pricing components projected at the 42% historical CAGR with the 6-7 bps fair-value band overlaid. Under this trajectory, the all-in flat price approaches the fair-value band by the mid-2030s.

The 10T structural advantage

What is particularly interesting about the FICO 10T model is that it only requires a 13.9% close rate to break even with the $10 all-in flat fee, versus 15.3% for FICO's Classic performance-based model. That gives 10T a structurally lower breakeven hurdle. Just as importantly, the $0.99 upfront fee under 10T is effectively at parity with VantageScore 4.0. That means lenders do not have a clear upfront pricing incentive to switch to VantageScore, while FICO still preserves meaningful upside through the success fee if the loan closes.

> *"In this most recent move to $0.99 plus a $65 funding fee, the idea was to encourage adoption of FICO 10T because we think that the most powerful thing that we can do is really get FICO 10T established... We're in roughly the same place financially, whether they go with the per-score model or the performance model. So it's revenue neutral."*
>
> *— William Lansing, CEO, Q2 FY2026 earnings call (April 28, 2026)*

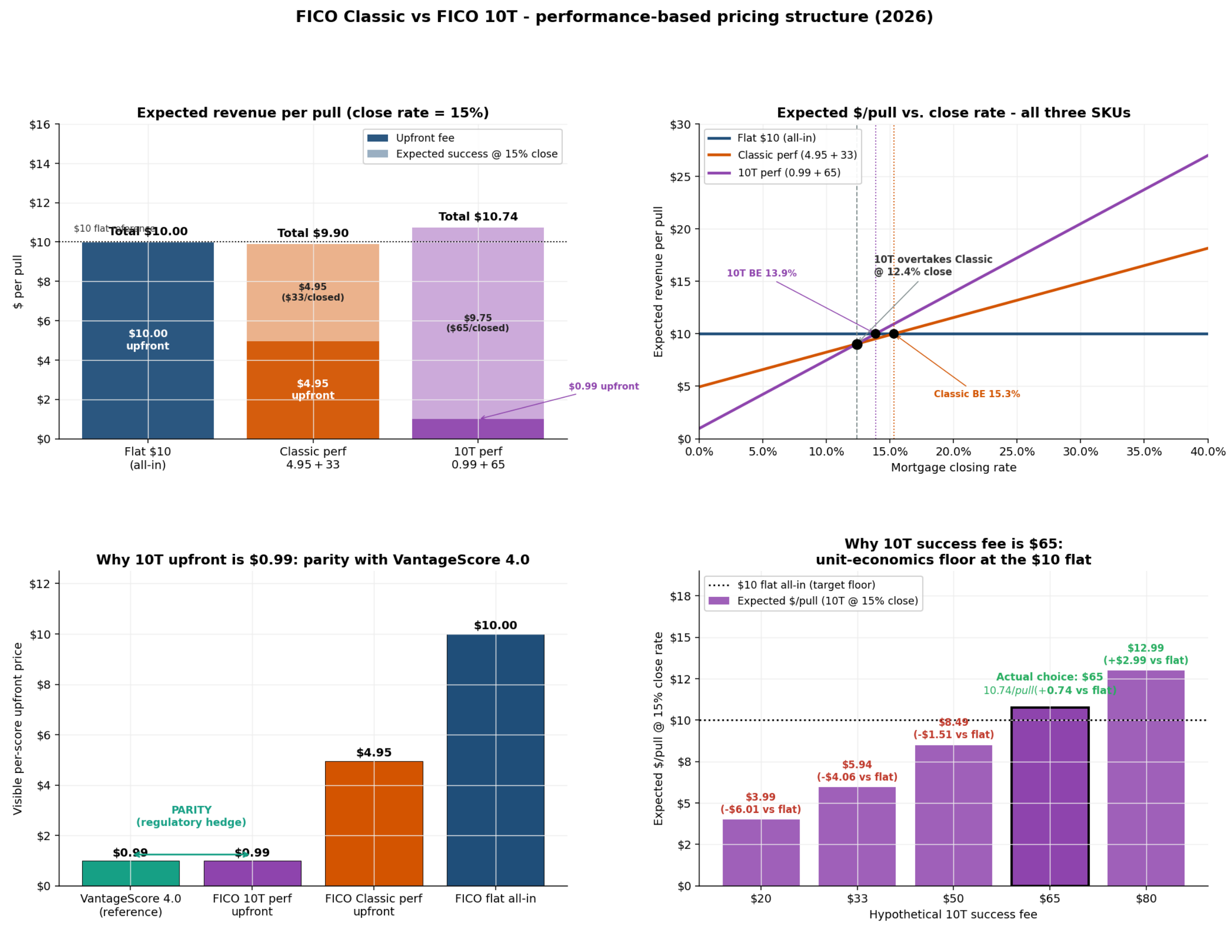

Figure 8 — Side-by-side comparison of FICO Classic perf, FICO 10T perf, and the $10 flat all-in price. 10T's $0.99 upfront delivers parity with VantageScore 4.0; the $65 success fee restores unit economics to the $10 floor at realistic close rates.

FICO designed 10T to do three things at once: neutralize the regulatory parity argument, restore unit economics through the success fee, and serve as a launch-pricing vehicle to drive 10T market establishment. None come at any economic cost to FICO. This is what high-quality competitive defense looks like.

III. Sell-Side Qualitative Support

Independent corroboration of the operational thesis comes from every major sell-side house covering FICO. Despite different valuation methodologies, the qualitative read is unanimous: pricing power is intact, VantageScore is a non-threat to volumes, and the price-to-value gap remains the central long-term driver.

Coverage snapshot (early-mid 2026)

Bank	Rating	Price Target	Key qualitative read
RBC	Outperform	$2,400	Long pricing runway across mortgage and adjacent verticals; cites 5-8 bps rating-ag
Wells Fargo	Overweight	$2,500	VantageScore LLPA grids face cherry-picking and bi-merge implementation hurdles;
Jefferies	Buy	$2,200	Score pricing power has not diminished; volumes well above expectations; mortgage
Goldman Sachs	Buy	$1,770	Sustained mortgage pricing realization plus accelerated auto pricing increases drive

Pricing power: unanimous read

> *"FICO continues to see a long pricing runway in mortgage and plans to continue to close the price-to-value gap over time. In auto, we see a similar opportunity for FICO to narrow the gap, and we view the end-market as highly inelastic given limited adoption of VantageScore so far."*
>
> *— Wells Fargo (Jason Haas), February 3, 2026 — HQ visit takeaways*

> *"We believe pricing can deliver roughly mid- to high-teens revenue growth in the medium term. In our view, FICO Score pricing is significantly below the value derived by the lending institution."*
>
> *— RBC (Ashish Sabadra), February 1, 2026*

Competitive positioning: VantageScore as a non-threat

> *"Downstream ABS/MBS investors would need to validate VantageScore's predictive power across market cycles — a credential VantageScore lacks compared to FICO, which has been tested through multiple cycles including the Global Financial Crisis. Consequently, investors may demand a valuation discount of approximately 25-30 basis points on VantageScore paper to compensate for added uncertainty."*
>
> *— RBC (Ashish Sabadra), February 1, 2026 — management call notes*

> *"Lenders could pull both FICO and VantageScores and submit whichever score is more favorable. In response, the GSEs would need to raise LLPA fees to offset the risk of gaming, leading to unfavorable pricing. The non-agency market could then 'skim off' the mispriced mortgages, leaving the GSEs with the weaker credit profiles."*
>
> *— Wells Fargo (Jason Haas), February 3, 2026*

Q2 FY2026: beat-and-raise validation

The April 28, 2026 print was the cleanest possible operational confirmation: revenue $692M (+39% y/y), GAAP EPS $11.14 (+69%), non-GAAP EPS $12.50 (+60%), Scores +60% with B2B +72%, and mortgage origination revenues +127% y/y. FY26 guide raised to $2.45B revenue / $40.45 non-GAAP EPS. Management executed the largest quarterly buyback in company history at $605M. None of this fits a narrative of impaired pricing power.

IV. Valuation: DCF and Cross-Checks

DCF inputs and outputs (Base Case, March 11, 2026 snapshot)

Core inputs: WACC 9.5%, terminal growth rate 3% (which I argue is conservative for a credit-standard business — see below), terminal EV/EBITDA 35.07x (5-year median), consensus 3-5 year revenue CAGR of 17.88%, EBITDA margin scaling to 63.86% by Year 5, and a 20.13% normalized tax rate. The Base Case blends the perpetuity-growth and exit-multiple terminal values with a 30/70 weight (favoring the exit multiple given the credit-standard nature of the business).

Workbook Base Case ($mm)	2026E	2027E	2028E	2029E	2030E
EBITDA	1,516	1,856	2,158	2,564	3,047
Less: Cash Taxes	(305)	(374)	(434)	(516)	(613)
Less: Capex	(49)	(58)	(68)	(80)	(95)
Unlevered FCF	1,182	1,448	1,680	1,997	2,373

Plugging the Year-5 unlevered FCF of $2,373M and Year-5 EBITDA of $3,047M into the blended terminal value (30% perpetuity at 3% TGR, 70% exit at 35.07x EV/EBITDA) produces the Base Case equity bridge below.

Equity Bridge — Base Case	Value
Sum of PV (UFCF, Yrs 1-5)	$6,462M
+ PV of Terminal Value (blended 30/70)	$58,644M
= Enterprise Value	$65,106M
- Net Debt (Cash)	($2,541M)
= Equity Value	$62,565M
÷ Diluted Shares Outstanding	23.96M
= Implied Share Price (Base Case)	$2,611
Upside vs. Current Price ($1,010)	+158%
Implied 5-Year IRR	32.1%

Three observations. First, the workbook Base Case targets **$2,611** (+158% vs. $1,010) with an implied 5-year IRR of **32.1%**. Second, the 10-year median P/S of 9.74x produces an implied price of $1,010 on FY+1 revenue: the stock is, today, sitting on its 10-year P/S floor. Third, the 5-year median P/S of 14.56x implies $1,510 — even partial mean-reversion produces a 50% return.

The terminal-growth-rate problem

The 3% TGR is the textbook default, but it is the wrong default for FICO. The 3% number assumes the terminal state of the business is mature commodity-like growth bounded by long-run nominal GDP. That holds for software companies competing on price; it does not hold for an embedded financial-infrastructure standard. The natural reference set for FICO's terminal growth is not "mature software" but "century-old financial standards" — SPGI, MCO, MSCI, ICE, CME — which compound 6-9% nominal in perpetuity. At a 5% TGR (still conservative), the perpetuity DCF moves to ~$1,510; at 6%, ~$1,810. Most of the apparent "downside" in the perpetuity case is an artifact of an unsuitable assumption.

Reverse DCF: the central mispricing

The reverse DCF is the sharpest expression of the thesis. At the prior $1,165 snapshot, the implied revenue CAGR required to justify the share price was 7.5% — while consensus analyst growth was 17.88%. The market was pricing in less than half of the growth analysts expected. At today's ~$1,010, implied growth is even lower (~5-6%). The Q2 FY2026 raised guide of $2.45B FY26 revenue is +23% — FICO is delivering nearly 4x the growth the market is pricing in. This is exactly what reflexive mispricing looks like at the bottom of a cycle.

Bear / Base / Bull

Case	Implied Price	5y IRR	Key inputs
Bear (cyclical)	$1,822 (+80%)	~22.5%	WACC 10.5%, exit 28x, EBITDA -10%
Base	$2,611 (+158%)	~32.1%	DCF defaults; consensus growth
Bull	$3,584 (+255%)	~40.9%	WACC 8.5%, exit 42x, EBITDA +10%
Tail bull	$8,000-$12,000 (+700-1,090%)	~50-60%	Full 6-7 bps capture by 2030
Structural impairment	$400-$600 (-40 to -60%)	Negative	Price cap, public bureau, mandate

The Yacktman-style Forward Rate of Return analysis comes to a similar conclusion from a different angle: P/E-based decomposition produces a base-case 5-year annualized CAGR of 33.6%, with the bear (10y-low multiple) still positive at 12.9% and the bull (10y-high multiple) at 56%. Even the worst-case reasonable scenario clears the equity risk premium with room.

Smart-money corroboration

Yacktman Asset Management — the firm that pioneered the Forward Rate of Return framework that drives my valuation work — added 8.29% to its FICO position in Q4 2025 (avg ~$1,725) and then more than doubled it in Q1 2026 with a +124.38% add (avg ~$1,372). They are sitting on the same drawdown as I am, with process-aligned accumulation through weakness. This is process-level confirmation, not just outcome-level confirmation.

V. Risks

The thesis is asymmetric, not free. Honest risks worth owning:

- **Regulatory regime change (10-15% probability, -50% to -60% impact).** FHFA mandates a 5-bps price cap; a public credit bureau is established; or a mandated open-source scoring model is required for conforming mortgage. Any would cap pricing power structurally.
- **LLPA grid gaming (low probability, moderate impact).** If the FHFA fails to design grids that prevent score-shopping, lenders will pull both scores. Per Lansing, this is share-loss not volume-loss for FICO — "you're really doing is expanding the market by the second pull" — but the optical share number is a real headline risk.
- **DLP execution timeline.** Three of five top resellers signed; FHFA sign-off on resellers calculating scores still pending as of Q2 FY2026. Any meaningful slip beyond CY2026 delays the perf-fee mix ramp.
- **Concentration in Scores (~75% of operating profit).** Any single regulatory outcome reverberates more than for diversified peers. The structural cost of monopoly economics.
- **Multiple-compression accelerator.** Reflexivity works both ways. Any new FHFA hostile action or VantageScore traction surprise could re-trigger the cycle in reverse.

VI. Conclusion

FICO represents a rare intersection of monopoly-like economics, reflexive mispricing, and durable compounding power. With regulatory overhangs progressively resolving, pricing power reaffirmed by the Q2 FY2026 print, and long-term earnings visibility intact, the business stands positioned to extend its dominance for years to come. The FICO 10T performance model neutralizes VantageScore at zero economic cost while preserving and extending the pricing runway. The reverse DCF says the market is pricing in 5-7% revenue growth against management delivering 23%+. The 10-year P/S multiple is exactly at its decade floor. My Base Case DCF target of **$2,611** implies **+158% upside** with a **32.1% five-year IRR**.

As Steve Mandel of Lone Pine once said, "I don't need an analyst to tell me when a 10 P/E stock is cheap. I need an analyst to tell me when a 40 P/E stock is cheap." FICO is no longer a 40 P/E stock — it has derated to ~25x forward earnings while delivering 30%+ EPS growth. The PEG of ~0.85 is below its historical 2.0 average and below the math of a business with this kind of structural runway. On a Yacktman Forward Rate of Return basis, FICO offers a compelling setup: as multiples normalize toward their historical median and EPS continues compounding at ~30% per year, long-term investors stand to benefit from both multiple expansion and intrinsic earnings growth.

For investors able to look beyond short-term sentiment, the opportunity lies not in discovering a hidden story, but in recognizing that the best competition is none. The setup that drove a 116x trailing P/E in 2024 has been replaced by a derated, operationally-validated, smart-money-confirmed asymmetric long. The thesis has not changed since October 2025 — the entry has only gotten cheaper.

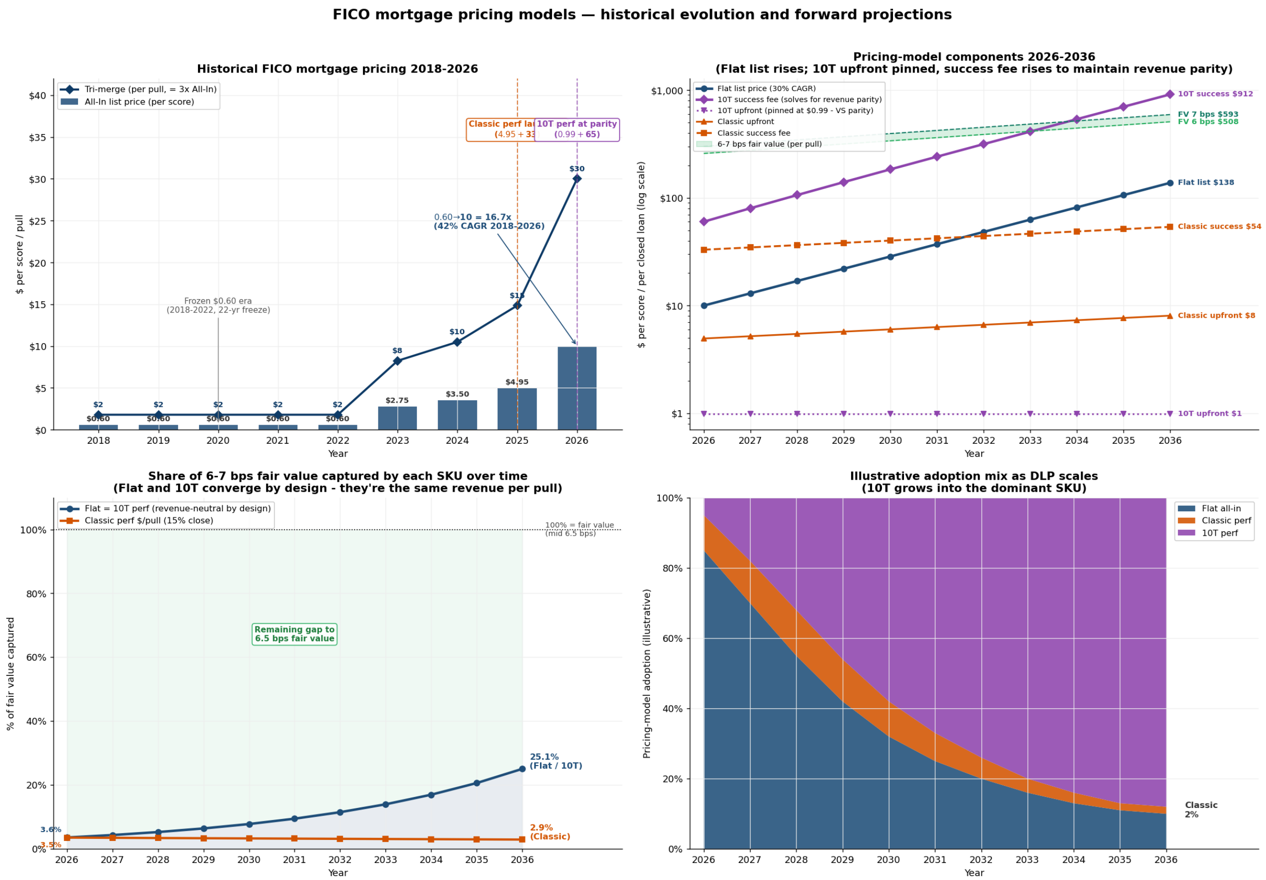

Figure 9 — Combined dashboard: historical pricing, forward components, fair-value capture, and an illustrative adoption mix as the Direct Licensing Program scales.

VII. Important Disclosures

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Risk warning. Concentrated single-name exposure carries materially higher risk than a diversified portfolio. The thesis depends in part on regulatory developments (FHFA, GSE, conforming-mortgage rule-making) that remain in flux as of the date of this memo. Structural impairment scenarios — including a price cap on credit scoring fees, mandated open-source scoring models, or the establishment of a public credit bureau — could result in equity-value impairment of 40-60% or more. These tail outcomes are not the base case but cannot be ruled out.

Valuation caveats. The DCF outputs presented in Section IV are sensitive to inputs including WACC, terminal growth rate, exit multiple, EBITDA margin trajectory, and revenue growth assumptions. Small changes in any of these inputs can produce materially different equity values. The Base Case relies on consensus growth estimates which may not be realized. The reverse-DCF gap analysis depends on current market price and is itself a moving target.

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