



Large Call Buyer in Fair Isaac into Earnings

Ticker/Price: FICO (\$302)

Analysis:

Fair Isaac (FICO) with 1000 November \$300 calls bought into the close up to \$13.50, aggressive positioning in the name which drove IV higher. FICO has seen some smaller Jan. \$320 and \$360 call buys this year as well as November \$290/\$260 put spreads bought on 10-23 500X. Shares ran up almost 120% from the December lows before rolling over a bit in early September and back to the 200-MA and 38.2% Fibonacci at \$296. FICO has found a narrow range over the last five weeks and a close above \$320 can see a return trip to \$360+. The \$8.73B company trades 36.34X earnings, 7.7X sales, and 43.7X FCF with impressive growth metrics and seeing mid-teens EPS and 8-9% revenue growth the next two years. They are primarily an analytics company which offers credit scoring and account management products for financials, healthcare and other agencies. Their ubiquitous 'FICO score' is used primarily in auto loans, home loans, and credit card applications. FICO has come under pressure recently after the FHFA announced a process by which Fannie and Freddie may adopt new credit scoring models for home loans. Historically, every government backed mortgage came with a FICO score which was used in underwriting. The new process, which is not final, could move a multi-score process, stay at the one score regime they have now, or stick with one score but move away from FICO altogether. The company has been clear that they believe FICO offers the best predictive power for the origination market and they believe moving away completely from it would be the lowest probability outcome. It's also important to understand that the new process will take several years and could change completely before it's finalized. FICO will report earnings on 11-4 after the close and a mixed history, higher two of the last three but down two of the three prior. The average move is about 3%. The company could see higher volumes this quarter as rates move lower and refinancing of mortgages increases. Origination scoring which is used in refinancing is their highest value score and also higher revenue driver. Analysts have an average target for shares of \$355, around 18% upside from yesterday's close, although limited coverage. Wells Fargo a Street High \$415 PT. Baird started coverage on 10-15 with an Outperform noting the company has two "under-earnings" businesses with its Scores and Software divisions. They like the long-term prospects but would be buyers after earnings with the 2020 outlook. Cowen noted on 8-14 that the FHFA rule is a risk but not a guarantee of competition. Short interest is 2%. Hedge fund ownership was up 1.5% in Q2, although a quiet name overall. In November 2018, a director bought almost \$1M in stock at \$190.57, the last notable open market buy.

Hawk Vision:



Hawk's Perspective: FICO is down 70 points from a recent high and sits at key 200 MA support, and the size of this call buy is noteworthy making it attractive into this coming report.

Confidence Ranking: \$\$