

THE SCORE

THE BUSINESS WEEK IN 6 STOCKS

Mattel Cheers on Barbie, Spotify Slips, Meta Gets AI Boost

MATTEL

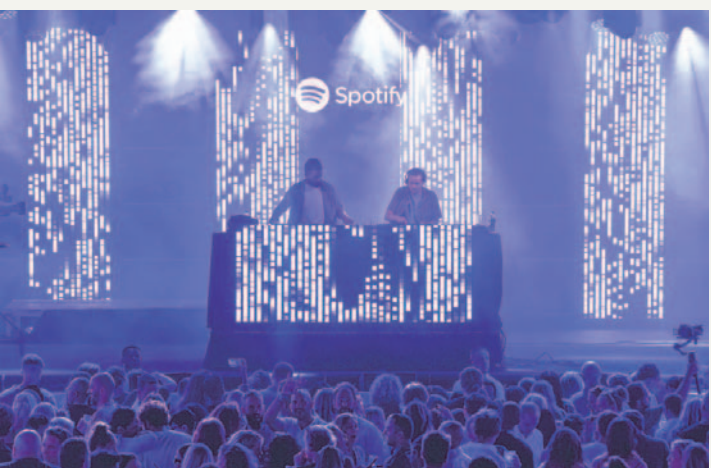
MAT
1.8%

Barbie dominated the box office during its debut weekend, lifting shares of Mattel as investors bet the movie's success will be a boost for the toy maker. The PG-13 "Barbie" movie, which Mattel co-produced with Warner Bros., debuted in theaters on July 21 and grossed \$155 million in the U.S. and Canada over that weekend as moviegoers headed out to theaters. Ahead of its release, Mattel introduced a line of dolls and toys for the movie and struck dozens of brand partnerships. Later in the week, Mattel posted dropping second-quarter sales and profit. Mattel shares **gained 1.8% Monday**.

UNION PACIFIC

UNP
6.7%

A new leader is taking the reins at Union Pacific after pressure from a major shareholder. The railroad freight operator named former Chief Operating Officer Jim Vena as its CEO. He was the preferred candidate of Soroban, a Union Pacific investor that earlier this year pushed for the removal of Lance Fritz from the top job. The New York hedge fund urged the company's board to oust Fritz in February, arguing the company had underperformed. Shortly after, the company announced the search for a successor. Union Pacific shares **increased 6.7% Wednesday**.



Spotify is struggling to be profitable as it cuts podcasting costs.

SPOTIFY TECHNOLOGY

SPOT
14%

Spotify's losses are deepening as the company makes podcasting cuts and faces paying higher music royalty costs. The Stockholm streaming giant handily surpassed subscriber-growth expectations for its latest quarter, boosted by Gen Z and overseas listeners, but missed its revenue target and gave a weaker-than-expected outlook for the current quarter. The company is trying to improve by reducing its investments in podcasting and raising prices for its subscriptions. Spotify shares **plunged 14% Tuesday**.

70%
The percentage of Spotify's revenue it pays out to music rights holders.

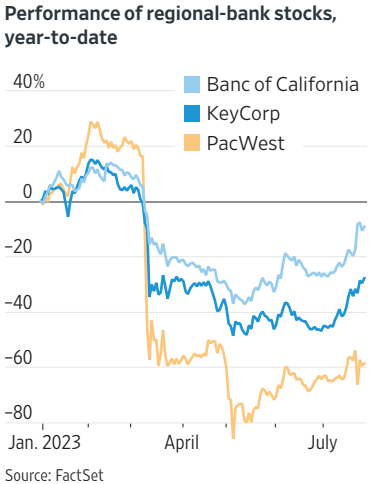
\$10.99

The new monthly U.S. subscription price for Spotify Premium, up from \$9.99.

PACWEST BANCORP

PACW
27%

Two regional banks are joining forces. Banc of California agreed to buy its larger rival PacWest Bancorp in an all-stock deal, as the two lenders seek strength after the industry turmoil this spring. Both banks and their shares have come through the regional-banking crisis in relatively good health. But midsize banks still face questions about their stability in the aftermath of the failure of Silicon Valley Bank in March. PacWest has around 70 branches, mostly in California, while Banc of California's branch network is roughly half that size. PacWest shares **rocketed 27% higher Tuesday**.



META PLATFORMS

META
4.4%

Meta posted its highest quarterly sales growth since 2021 as digital advertising continued to recover. The social-media giant's ad revenue grew about 12% in the quarter, driven by use of artificial-intelligence technology that has enabled better ad-targeting. Alphabet, the parent company of Google, reported its second straight quarter of accelerating growth. Google co-founder Sergey Brin, Alphabet's second-largest individual shareholder, has recently been working on Gemini, its next big AI system, The Wall Street Journal recently reported. Meta shares **rose 4.4% Thursday**.

SOUTHWEST AIRLINES

LUV
8.9%

Air travel is hot, but corporate demand is lacking. Southwest Airlines executives said Thursday that business travelers aren't doing so as often, and they expect corporate travel to lag behind leisure for the foreseeable future. The carrier said it would revamp its flight schedule next year to adjust where and when it flies. Carriers including Delta Air Lines have said they expect business travel to improve as offices fill up. American Airlines has said its pure business travel revenue has declined. Southwest Airlines **fell 8.9% Thursday**.
—Francesca Fontana

KEYWORDS | CHRISTOPHER MIMS

Netflix's Algorithms Are Key to Its Success



Data on who watches what, and for how long, affects everything from recommendations to series renewals



After decades of pitching Netflix as a technology company that happened to distribute entertainment, executives there have lately attempted to restyle their streaming behemoth as an entertainment company that happens to rely on technology.

But don't be fooled: The proprietary technology that Netflix uses to gather and analyze data remains key to the company's success. That data is used to inform decisions about what shows and movies to produce, whether to renew them, and whether to share them with any given viewer through the company's famous recommendation algorithms.

Netflix already shares some of this data privately, with those who make its content, and in the form of public weekly top-10 lists, says a Netflix spokeswoman. Depending on how the simultaneous strikes by Hollywood writers and actors go, the company, and its many imitators, may have to share more.

That's because, in the age of streaming, answering the question of how actors and writers should be compensated depends on this data, and how the company uses it to calculate whether a show was a good investment.

When residuals come up in the context of a contract negotiation, such as the one at the heart of the current Hollywood strikes, what's really at stake is data, and who possesses it, says Michael Wayne, an assistant professor of media and creative industries at Erasmus University in Rotterdam.

The Writers Guild of America and SAG-Aftra, the actors' union, didn't respond to requests for comment.

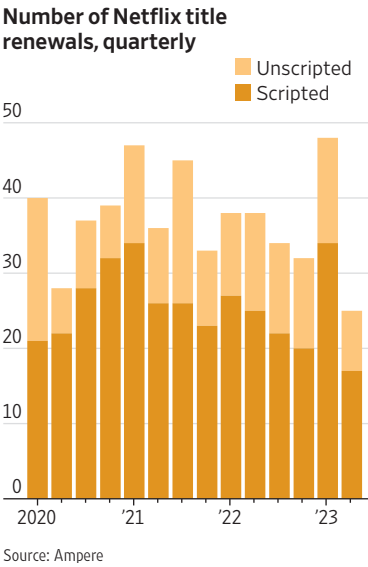
Wayne points to "House of Cards," Netflix's first big original series. Even 10 years after its debut, it still has value for the company, but how much isn't clear.

"As long as people who are making content for Netflix don't know the value of their labor, Netflix has an advantage at the negotiating table," says Wayne. "Data is central to this."

Netflix has in the past few years begun sharing more data with producers, according to a spokeswoman for the company, and a letter Netflix sent to a U.K. parliamentary committee in 2019.

This data includes how many people started a series or movie in its first seven and 28 days on the service, and also how many completed it in that time.

Hollywood talent might hope to change this situation. But the current reality is that, beyond these limited disclosures, Netflix has no incentive to be transparent about its proprietary internal data, says Marshini Chetty, an associate pro-



fessor of computer science at the University of Chicago who has studied how the company gathers data.

Netflix's ability to use data has helped it in the streaming game of retaining subscribers with original content, without breaking the bank.

A recent California law offers a peek into Netflix's data gathering and how it might be able to use that to its advantage with both streaming rivals and its talent negotiations.

The California Consumer Privacy Act, which took effect in 2020, requires companies to provide customers, on request, with the data it has about them. Doing so with Netflix reveals data with a surprising level of granularity, says Brennan Schaffner, a computer-science Ph.D. student at the University of Chicago.

That data includes "detailed accounts of every piece of content you've engaged with since you created your account," says Schaffner, including how long you watched, where you were when you watched, and what devices you used. Netflix also has unprecedented insight into what led you to watch something in the first place, in the form of detailed records of how you navigated the service's menus, and what you clicked on.

Netflix has explained that this data powers its recommendation algorithm. The company has also alluded to this data in past discussions about how it tests different versions of previews, thumbnails and other content.

One window into how Netflix uses data is to look at how the company decides what to renew.

On average, a show on a traditional broadcast or cable network that gets renewed goes to six seasons, says Olivia Deane, a senior analyst at Ampere, an analytics company that gathers data on media and entertainment.

At Netflix, however, shows typi-

cally only get renewed for a total of three seasons.

This suggests that titles that go beyond their third season have limited utility in terms of both attracting and retaining subscribers, says Deane.

Netflix's ongoing commitment to scripted shows—in the last quarter, scripted titles represented two-thirds of the shows Netflix decided to renew—suggests that the company has found that they return their investment in terms of attracting and retaining subscribers.

Given that scripted titles cost far more to produce than unscripted ones like reality shows and documentaries, this shows that Netflix's advantages in data—which the company has said give it more confidence that audiences will show up for the company's content—continue to pay off.

Netflix, a bellwether for the entire streaming industry, is hardly the only streaming company to operate in this way. Leaders at competing services have talked about how they use data to make decisions about what to produce.

As more of these streaming services explore offering an ad-supported version, gathering this kind of data becomes mandatory, so they can provide advertisers with viewership information.

Now more than ever, series and films are expensive. This is all the more reason to have AI to inform the decision to commission them, as Netflix's own engineers explained in a 2020 blog post about how the company uses machine learning. That AI can be fed information about what titles are comparable to a proposed one, and what audience size to expect, and in which regions.

The more data Netflix has to feed such an AI, the better the results it will issue. As we've seen with the enormous volumes of data fed into today's generative AIs, sheer scale can yield surprising and useful new capabilities.

Profits Dip For Exxon, Chevron

Continued from page B1

mise our expectation of generating returns and growing value for shareholders," he said in a conference call with investors.

Chevron CEO Mike Wirth said in a recent TV interview his company is open to more deals following the PDC acquisition.

In picking off two smaller companies, Exxon and Chevron revealed some of their strategy to investors who have asked how they plan to grow as they sit on historically large piles of cash.

Exxon and others have eyed potential deals in the Permian basin of West Texas and New Mexico, the most active U.S. oil field. In April, The Wall Street Journal reported that Exxon had held preliminary talks with Pioneer Natural Resources, a giant shale company in West Texas.

Conditions are ripe for a deal frenzy in the oil patch this year. The shale industry has shifted from the rapid growth it pursued for more than a decade to a mature business underpinned by fiscal restraint and hefty shareholder payouts. Drilling for new oil discoveries has fallen out of favor with investors, leaving many companies with few options other than to acquire rivals.

The continued run of profitable quarters has helped Exxon and Chevron improve their balance sheets while increasing dividends and buybacks, potentially giving them more leeway with shareholders to pursue deals. Analysts and investors expect Exxon and Chevron to eventually play a big role in scooping up the dozens of smaller shale companies.

Both companies' profits fell modestly from the previous quarter, when Exxon reported \$11.4 billion in profits and Chevron posted \$6.6 billion. Exxon's profit came in below analysts' expectations of \$8.3 billion, according to FactSet. It attributed most of the \$3.6 billion decline from the first quarter to lower natural-gas prices and thinner refining margins.

Exxon's shares fell about 1% on Friday. Chevron shares were down less than 1%.

Prices for crude, natural gas and fuels have fallen since last summer, when the national average for U.S. gasoline hit a historically high mark and fuel-making margins reached the widest levels on record. Despite falling off their highs, commodity prices have remained elevated. Europe's energy crunch has made shipping commodities from U.S. ports more profitable, as well. All of that has bolstered the companies.

Exxon said it had \$29.6 billion in cash at the end of the three-month period, compared with its record high of \$32.7 billion at the end of March. Both companies also showered investors in cash. Exxon spent \$8 billion on shareholder distributions via dividends and share buybacks in the quarter; Chevron spent a company record of \$7.2 billion.