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# BOXWOOD

CAPITAL MANAGEMENT, LLC

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In 2011, Marc Andreessen, prominent Silicon Valley venture capitalist and co-founder of Netscape, wrote that **“Software is Eating the World.”** If *The Jensen Opportunity Fund, LLC* had a motto to describe its underlying investing thesis, this very well may be it.

Six years later, a fitting corollary: **“Amazon is Eating the World.”**

The day of the announcement was June 16th, 2017. Amazon’s \$13.7B bid to buy Whole Foods Market. The combined entity would comprise only 4% share of the total \$800B grocery market. Despite the relatively small share, Amazon's ability to bring scale and their executional excellence shook the space. On the day of the news, all the old guard grocers traded down. Wal-Mart shares closed down 4.7%. Costco, down 7.2%. Kroger, down 9.2%. Fearful of the might of Amazon’s purchasing power, large food brands felt the shock too - The Kraft Heinz Co. closed down 2.4%. Even real estate investment trusts traded lower - Regency Centers, a developer of shopping centers with grocers as anchor tenants, down 4.1%. Who rose on the announcement? Amazon. Up 2.4%.

The disruptive entrance of Amazon into the grocery space is just a recent example of a large-cap tech company flexing its technological, logistical, data abundant muscle over an industry lacking such. This isn't the first time, and certainly won't be the last. The prospects of this type of future guide the investment decisions in the fund.

There are many examples. Think of the car rental industry for another recent disruption. In the age of Uber and driverless vehicles, technology has nearly left this line of business obsolete. Imagine the checkout process. Reams of paper to be filled out. Do you want to purchase the insurance they offer? Here, have some coffee while you wait endlessly for that guy to pull the car around for you - you will need it. Make sure to fill up the tank before return. Speaking of return, when do I need to get this car back? Compare that to the Uber experience. Pull the mobile device out of your pocket. Enter your destination. Accept the rate. Text the approaching driver if need be. Your credit card information is stored within the app. No need to remember cash. Just say thank-you. Simple, easy, and efficient. A private company now valued at \$80B.

Last week the future of that car rental industry looked bleak. A significant infusion of technological change was desperately needed. Uber was doing to it, as Amazon was doing to retail.

All of a sudden, that outlook changed. Google called.

Look at the stock movement of the players in the space for effect. Avis, the car rental company, had its stock peak around the summer of 2014. Uber was just starting to emerge as a powerhouse. Also around the same time, regulators approved the testing of autonomous driving vehicles. Since that time, the use of Uber became ubiquitous and the development of autonomous driving advanced to the point of only being slowed down by regulation. Two innovations that were clearly wreaking havoc on the space. Avis's stock value cratered about 65% from that peak in 2014 until the Google announcement. The announcement that Google would manage the autonomous driving technology for Avis's car rental fleet. Avis's stock jumped 14% on the news. The market seemed to think this was the catalyst for change. The type of change that only a select few, large-cap tech companies can bring about.



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Large tech companies use their prowess to disrupt other industries. They also innovate products and services that pave the way for the formation of new industries, not otherwise thought of. They either disrupt the industries that don't have a tech overlay or they disrupt by creating brand new industries altogether. The aforementioned examples of Amazon in the grocery space, and Google in the car rental space, only look at the former case of disruption. But, make no mistake about it, while making investment decisions we are thinking of the later too.

Artificial intelligence is just such an area. An emerging area that a handful of tech companies are dominating. Regardless of your thoughts on the merits of A.I., it is undeniable the change this will bring to our society. Whether it is the emergence of smart-speaker devices in the home; analyzing the trove of data that is endlessly being collected; deciding which news we view; making recommendations for health-related decisions; or automating tasks, the reach of any one by itself being wide and together immense, artificial intelligence will change the way we live. And with the platforms of Amazon's Alexa, Microsoft's Cortana, Google's Assistant, and Apple's Siri, it is these companies that are set to benefit from the upcoming revolution. \*

We want to be invested on the right side of the disruption divide, and we are.

I am pleased to announce the results of another good quarter for *The Jensen Opportunity Fund, LLC*. The fund, net of fees, increased 8.0% over the previous quarter. This is a whole 5% above our benchmark, the S & P 500 index fund which was up 2.57% over the previous quarter.

Until next time,

Todd Shorb

\* We have long positions in Google, Amazon, Apple, and Microsoft. (And Facebook)

