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By Swiss Growth Forum

EVERGREEN RESEARCH BRIEF

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# **CARNOMALY (CARR)**

## DIGITIZING CAR OWNERSHIP

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*28<sup>th</sup> JULY 2021*

[www.swissgrowthforum.org](http://www.swissgrowthforum.org)

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## CARNOMALY DIGITIZING CAR OWNERSHIP



**Carnomaly is well poised to deliver some of the most dramatic changes that the automotive finance industry has ever experienced. A combination of blockchain and digital solutions currently under development – including Carnomaly itself, CarrChain and CarrDefi – could significantly disrupt the present business models for car search and finance in both the new and used markets, by solving a number of problems experienced by consumers.**

**The Carnomaly investment case focuses on the company's ability to use digital technology – including blockchain and its own cryptocurrency – to disrupt and democratise the purchase, sale and financing of automobiles globally.** The company argues that a number of practices associated with automobile trading are both inconvenient and inefficient. Carnomaly's combination of automobile and technological know-how will radically improve the entire auto trading ecosystem.

Proof of concept focuses on the identification of structural weaknesses within the currently accepted practices associated with changes of car ownership. Carnomaly offers “end-to-end” solutions which are housed by the key components of the company's digital ecosystem – Carnomaly, CarrChain and CarrDefi. All three should simplify motoring for end-users.

## CARNOMALY (CARR) *Description*

The Carnomaly ecosystem will bring innovative solutions to the automotive and digital world. Carnomaly, CarrChain, and CarrDefi will work together with blockchain technology to bring this ecosystem to life. Together, these services will change the way we buy, sell, shop for, and finance vehicles. CarrChain will give vehicle owners the ability to interact with their vehicle's history report while earning points toward their vehicle's unique reputation score. CarrDefi will give borrowers the flexibility to choose anonymous or credit-based conventional and residual-based loans, all reported to the CarrDefi payment blockchain. Carnomaly will change the online automotive landscape by empowering both the consumer and the dealer with the infrastructure to properly communicate, without manipulation.

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**Both the US and global automobile markets are sizable.** Moreover, the prospect of “levelling up” between mature and developing economies should lead to more widespread automobile ownership as well as demand for simpler, more efficient solutions when cars are changing hands. The US typically purchases around 17m new cars annually compared with 15m in Western Europe and 83m globally – i.e. around 10% of the world’s population purchases 40% of its new cars.

**Despite the company being in development stage, there is ample scope for due diligence on the Carnomaly model.** In particular, Carnomaly itself has done substantial work on identifying the inefficiencies which the company looks to remove and tailoring its applications of blockchain and digital technology. For example, the logic of digitalising Vehicle Identification Numbers (VINS) to create Digital Vehicle Identification Numbers is clear and robust.

**Carnomaly is led by auto industry specialists with critical experience at the customer service end of the automotive industry.** It is a car-oriented company run by car people, who have substantial knowledge of the industry’s pitfalls and the benefits of appropriate blockchain and digital solutions.

**Carnomaly seeks to raise up to US\$10m from a pre-IPO funding round which will be based on a US\$90m pre-money valuation.** While still in development stage and pre-revenue, investors should be in a position to use the revenue targets published in this report to evaluate the financial benefits of participating in this funding round. Moreover, the company’s ERC 20 CARR crypto token is listed on [www.coinmarketcap.com](http://www.coinmarketcap.com) where its market value can be tracked.

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### OVERVIEW

This SGF Evergreen Research Brief outlines the investment case for Carnomaly (carnomaly.io) and the company's ERC20 CARR token. Carnomaly is arguably well placed in our view to implement radical changes to how new and used motor vehicles change hands both in the US and globally.

As a business which is first and foremost run by car people for car people, Carnomaly boasts a leadership team that is attractively positioned to identify the key inefficiencies and problems faced by the auto-trading industry as well as the appropriate digital measures which can be implemented to secure improvement.

This report covers what we believe to be the five fundamental drivers of the Carnomaly investment case. We aim to establish proof of concept, assess growth in the company's addressable market and cover the key components of the digital offering in more detail.

In addition, we emphasise the relevant experience of the leadership team before evaluating the implied pre-money valuation of the current fundraising round. Furthermore, we briefly summarise the tokenomics of the ERC20 CARR Token.

### WHY DIGITALISE CHANGES IN CAR OWNERSHIP AND WHY NOW?

Carnomaly's stated aim is to provide digital solutions, which remove inefficiencies and associated costs associated with changes of car ownership. The company's digital offering is expected to deliver benefits to both car owners and automotive dealerships alike.

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### **IDENTIFYING THE PROBLEM**

Despite its size and importance – i.e. it is one of the most profitable industries in the world and one which affects numerous third parties including technologists, natural resources, fossil fuels, financial institutions and large-scale workforces - the automotive industry continues to suffer from a number of flaws in terms of how cars are purchased and sold. Based on the experience of the Carnomaly leadership team's close association with the industry, the company identifies the following as key problems:

- Undervalued trades
- High interest rates on financing packages
- Limited financing options
- Overpayment for vehicles
- A confusing buying process
- Inaccurate vehicle history reporting

Carnomaly's innovative approach to the use of blockchain and digital technology will aim to solve and ameliorate these salient problems. Moreover, there is scope to deliver other automotive related solutions.

In summary, the company argues that in the current market, consumers have few good options when searching for vehicles. Indeed, Carnomaly suggests that most car buying websites only allow potential purchasers to sort their car requirements by limited search criteria.

Moreover, for sellers there are few safe ways to offload a vehicle at maximum value. In particular, there is a time consuming and potentially costly process whereby potential vendors shop around from dealer to dealer in order to secure optimal value for their cars.

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### **BUILDING SOLUTIONS**

A detailed analysis of the solutions offered by Carnomaly is included further ahead in this Research Brief when we look at the offering in greater depth, referred to as “Kicking the tyres.” However, the top-level summary of the solution is that the company looks to bridge the gap between the automotive and cryptocurrency worlds by using digital technology and an associated online platform to benefit car consumers and dealers simultaneously.

The company expects to be the first to implement the following important changes. Its offering will include:

- Flexible financing options for all credit types
- Incentivisation of members with CARR Token rewards
- Creation of a tokenised ecosystem controlled by consumers
- Utilization of blockchain technology with CarrChain to offer comprehensive,

### **DIGITALISED CAR TRADING – A GROWING ADDRESSABLE MARKET**

Carnomaly’s addressable market growth will be a function of two important positive outcomes. Once the concept is established digitalised trading should start to gain significant market share within developed car markets – i.e. North America, Central & Western Europe and similar jurisdictions. Moreover, lesser developed economies seem likely to increase their levels of car ownership as their economies grow more quickly than the mature countries.

### **MATURE CAR MARKETS**

Car markets in mature economies are unquestionably sizable. Data from [www.statista.com](http://www.statista.com) suggest that in the Covid struck year of 2020, US new car registrations were of the order of 14.5m units having dropped from 17.0m in the previous year, which is their typical level.

Moreover, the monetary value of American new car sales in 2020 was a sizable US\$1.2 trillion, equivalent to 6% of US GDP. The Central & Western European new car market, despite a larger population, is of similar magnitude to the US in terms of unit volumes at 15.0m.

Once established as a tool of choice for car purchasers and vendors, there is clearly a substantial market for Carnomaly to address in both the US and Central & Western Europe.

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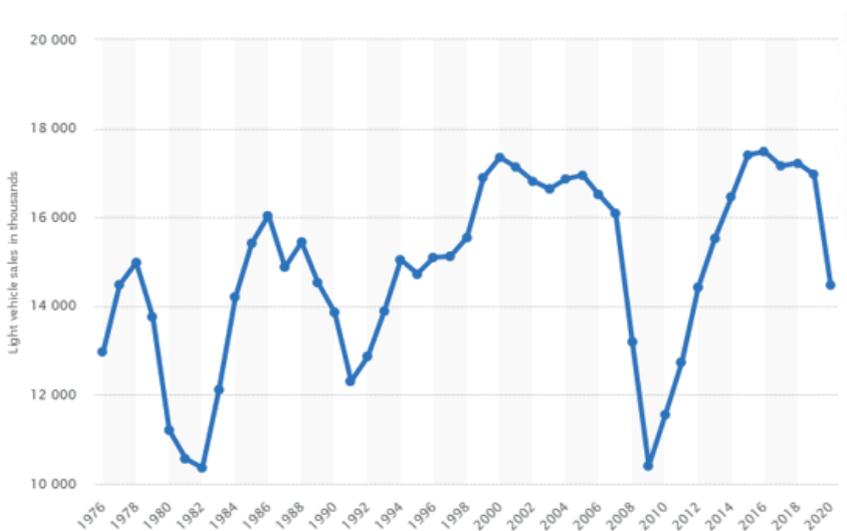
### DEVELOPING NATIONS CAR MARKETS

That a little over 10% of the world's population – i.e. inhabitants of countries with mature economies - should purchase around 40% of its new cars, implies significant scope for an uplift in both car ownership and purchases of new vehicles in other nations.

However, there is no reason why developing economy car markets should persist with the acquisition and disposal behaviours of mature markets, especially given the inefficiencies and consumer and dealer value leakages which Carnomaly itself identifies as problematic for the current system of auto trading.

Carnomaly's digitalised offering is international in its nature. The company's ERC20 CARR tokens are traded on an exchange with global access and the use of blockchain to form a Digital Vehicle Identification Number (DVIN) is equally transferrable across national boundaries. As a result, globalisation offers further scope for the company's addressable market to grow – arguably at a faster pace than in North America and Central & Western Europe.

**Figure 1 – US new car sales historical data**



Source: Statista 2021

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### **KICKING THE TYRES – THE CARNOMALY SOLUTION IN MORE DETAIL**

Carnomaly's aim is to become the standard for online vehicle shopping across a range of knowledge states and purchaser budgets. Moreover, the company expects to be able to facilitate a number of streamlined and innovative services to cover areas such as valuations of vehicles to be disposed of and make test drive deliveries to busy customers.

There are three pillars to the Carnomaly ecosystem. These are Carnomaly.com, CarrChain and Carr-Defi which will embrace blockchain technology to deliver customised car buying and financial solutions to prospective purchasers and sellers. We look at each in turn. The overall blockchain architecture is summarised in Figure 2.

#### **CARNOMALY.COM**

Carnomaly.com fulfils a customer need state by giving consumers and dealers the ability to buy and sell cars by providing accurate comprehensive vehicle reports, improved search functions, privacy control (via the company's proprietary anonymous search function) and a rewarding streamlined purchasing process.

Importantly, token holders will be able to earn CARR Tokens on their automotive purchases with the amount of tokens earned being a direct function of their membership tier. Carnomaly.com will also allow for a seamless exchange of inventory between dealers, which is consistent with the company's ability to offer solutions holistically for both sides of the auto industry.

#### **CARRCHAIN**

CarrChain (Comprehensive Auto Records Repository) is a web-based application powered by blockchain technology. Central to its value add is the ability to give car owners the power to manage and update each vehicle's history report. The company uses its reward system to encourage motorists to switch from the current analogue Vehicle Identification Number (VIN) system to one that is digitalised (DVIN).

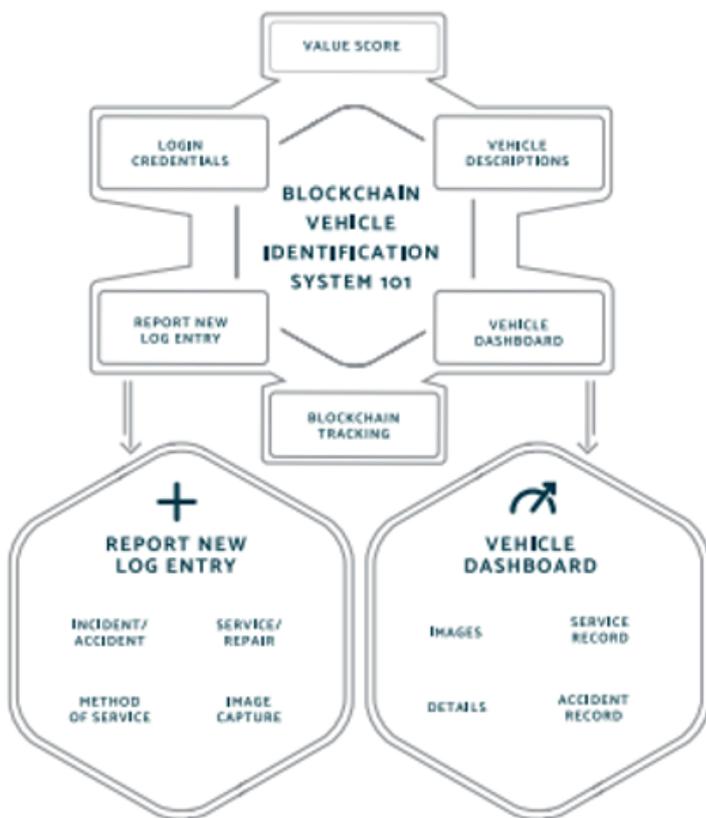
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System users will earn points towards their vehicle's reputation score by completing services and keeping the vehicle's history up to date, which clearly assists with the potential to realise an appropriate value for a car at the time of disposal.

**Figure 2 – Carnomaly blockchain identification system**



Source: CARR White Paper

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Data sources for vehicles are abundant but manifold. They include dealerships, insurance companies, collision centres, individual US states' Departments of Motor Vehicles (DMVs) and their equivalents in other countries. However, there are clear benefits from having this kind of information both encrypted and centralised when engaging in the process of either purchasing or selling a car.

Features of CarrChain.com's solution include the ability of car owners to upload photographs of receipts from independent service facilities as well as to notate any repair work carried out by themselves. Another benefit from the system is that car transactions will occur on a real time basis. As a result, DVIN eliminates the risk of inappropriate motor fines and law-suits accruing to purchasers.

### **CARRDEFI**

CarrDefi's aim is to revolutionise the vital function to the car industry of automotive finance by enabling cryptocurrency holders to become the lenders and fund pre-selected pools of car purchasers based on their required return. The business plan is that funding will be open to several different cryptocurrencies but that loans funded using the CARR Token will earn a higher rate of return.

Typically, a car purchase is the second most expensive financial decision a consumer makes after their house. But in contrast to a dwelling the asset typically depreciates in value. Auto finance is vital to the success of the auto industry as a whole.

CarrDefi will be the first ever decentralised, tiered automotive lending platform with a blockchain payment history. Borrowers will choose what type of loan they would like to apply for - either credit based or asset-backed.

Central to the success of CarrDefi is the human capital behind this part of the project. The CarrDefi underwriting team boasts in excess of 50 years of financing experience to compile pools of loans that will maximize returns and minimize risk. Furthermore, CarrDefi's use of blockchain should ensure that all payment history is tracked and encrypted onto the chain. We include a schedule of the underwriting guidelines in Figure 3.

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**Figure 3 – Carrdefi underwriting guidelines**

RATES			
Tier	Prime	Mid-Prime	Sub-Prime
A	3.0%	7.0%	12.0%
B	4.0%	8.0%	15.0%
C	5.0%	9.0%	18.0%

LTV			
Tier	Prime	Mid-Prime	Sub-Prime
A	140.0%	110.0%	80.0%
B	130.0%	100.0%	70.0%
C	120.0%	90.0%	60.0%

Source: Cluhouse Media Group Annual Report 2020

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### LEADERSHIP TEAM

Fundamental to Carnomaly's potential success is the automotive background of the leadership team. The company plans to be a car business run by car people who have a comprehensive understanding of the current state of the industry - notably, its advantages and pitfalls.

Carnomaly is not a business where blockchain and digital technology are being reversed into a business case on a "find a platform for the tech" basis. Rather, it is a business where the leadership team is in the dynamic process of identifying digital solutions to currently recognised problems. For an investor, this should be seen as advantageous in our view.

Importantly, founder and CEO Scott Heninger has spent 18 years in the retail automotive world. During that time, he has had the opportunity to work with several manufacturers which include Honda, Cadillac, Toyota, Nissan, Lexus and Hyundai. Scott started his career as a salesman before being promoted to General Manager positions.

Furthermore, the management of the Carnomaly project boasts strength and depth. There is a wealth of automotive, financial and technological experience which in our view are the three essential building blocks for a successful digitally focused automotive and automotive finance business. We summarise the leadership team in Figure 4.

**Figure 4 – Carnomaly leadership team**

Officer	Age	Role
Scott Heninger	40	Founder and Chief Executive Officer
Fernando Rodriguez	37	Chief Financial Officer
Josh Taylor	33	Chief Operating Officer

Source: Company website

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## FINANCIALS

### REVENUE TARGETS

Carnomaly is in development phase across all pillars of its operating platform. As a result, there are no reported financial data to include in this report. However, the company does have clearly stated revenue targets.

The credibility of these targets is supported in our view by a combination of the Carnomaly leadership team's established track record in the car industry as well as the overall transparency of the automobile market in terms of both volume and sales data. Carnomaly will be selling its services into a multi-trillion dollar business.

The primary Carnomaly revenue driver will be automobile dealerships. These businesses are expected to reward the company for its online services, blockchain based services and customer introductions with commissions. We detail the company's revenue targets in Figure 5.

**Figure 5 – Carnomaly revenue targets**

	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
Carnomaly	17.7	35.3	88.4
Defi	7.2	66.3	132.6
CarrChain		17.4	60.9
<b>Total</b>	<b>24.9</b>	<b>119.0</b>	<b>281.8</b>

Source: Carnomaly

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## VALUATION

Carnomaly's upcoming funding round which will be for up to US\$10m is being based on a pre-money valuation of US\$90m. The implied multiple of Year 3 sales revenue will be 0.3x. However, even Year 3 would only be at the very early stages of the group's revenue potential. We compare this valuation with targeted revenue progression in Figure 6.

**Figure 6 – Carnomaly pre-money valuation relative to sales targets**

All figures in (US\$m)	Year 1	Year 2	Year 3
Pre-money valuation	90.0	90.0	90.0
Sales revenue	24.9	119.0	281.8
Price: sales (x)	3.6	0.8	0.3

Source: Carnomaly

## CARR TOKEN

Daily movements in the traded value of CARR Tokens can be tracked on [coinmarketcap.com](https://coinmarketcap.com). There are currently 530,000,000 CARR Tokens in supply with no more tokens able to be minted.

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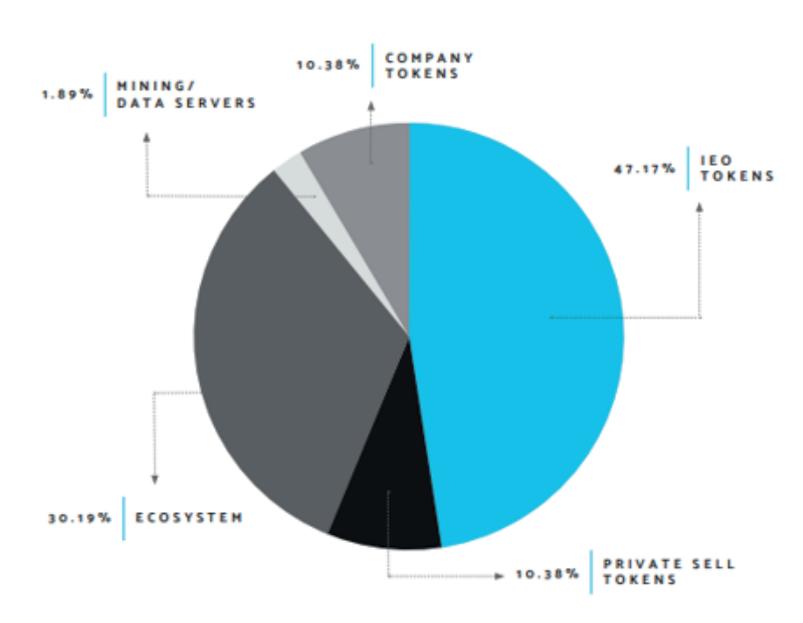


### TOKENOMICS

#### ERC20 CRYPTO TOKEN PROJECT

Carnomaly will use the Ethereum network and its ERC20 smart contract to host the CARR token. The company has allocated around 30% of token supply to the Carnomaly reward ecosystem. The breakdown of tokens as published in the CARR White Paper is shown in Figure 7.

**Figure 7 – CARR circulation breakdown**



Source: CARR White Paper

#### MEMBERSHIP AND REWARDS

To qualify as Carnomaly member private individuals need to become CARR token holders. Carnomaly expects to be the first company to offer a worldwide reward programme for an automotive purchase. Both new and used vehicles qualify so long as they are purchased from a verified legal dealer.

Upon completion of the consumer platform, Carnomaly will begin buying back tokens to replenish consumer rewards for an indefinite period into the future. The proceeds from the consumer platform will supply revenue to purchase tokens on the open market.



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