To the Shareholders of Paragon Technologies:

Paragon's earnings per share in 2022 were $2.76 compared to $1.97 in 2021. When present management assumed control, Paragon's business was solely as a supplier of industrial and supply chain automation products and solutions. Five years ago, Paragon acquired our Latin American technology distribution business, SEDC. Over the past four years, Paragon has also acquired a portfolio of luxury real estate properties. Those acquisitions (and the more we hope to come) have transformed Paragon into a diversified holding company with distinct operating subsidiaries. In addition, Paragon invests a portion of its cash assets in marketable securities.

Paragon's business structure, while not new, is *different.* We have seen numerous businesses attempt to replicate what Paragon has accomplished with little success. And these businesses are run by intelligent individuals. We believe temperament rather than intelligence to be the most important factor in the determination of business success. Corporate America has plenty of smart and capable individuals. Yet most of them follow a herd like mentality in how they think, invest, and make capital allocation decisions. At Paragon, we think, invest, and make our capital allocation decisions *as long-term owners of a business.* We think in probabilistic terms, value optionality, and will not hesitate to move significantly if the opportunity presents itself. We will wait patiently if prudence dictates as much. But rest assured our ambition has no end.

Paragon is also different in its construct and relationship with its shareholders. Since first joining the Board of Directors of Paragon in 2009, as your Chairman and CEO I have acquired over 30% of the outstanding shares in Paragon, virtually all acquired in the open market at prevailing market prices. The alignment of interest between Paragon management and its shareholders remains rare yet today. The size of my stake represents a complete alignment with shareholders.

Paragon shareholders can sleep soundly knowing that their investment is entrusted in the hands of management that truly eats its own cooking. Every single decision we make is made in the absolute best interest of Paragon's stakeholders because we *are significant long-term shareholders.* Paragon's shares outstanding is a case in point: on March 20, 2009, Paragon had 1,668,677 shares outstanding. As of December 31, 2022, Paragon's outstanding shares equated to 1,716,745, up *2.8 percent over fourteen years*. We don't dole out equity options, instruments that we believe promote reckless risk taking in an aim to boost the stock price, yet provide no financial consequence to the option holder if those risks impair the value of the business.

To further illustrate our thinking, consider two questions I've been asked numerous times: whether Paragon intends to consummate a dividend or stock buyback. These two instruments, if implemented appropriately and prudently, serve *long-term shareholders* well. Yet often the push for a dividend or stock buyback comes from a desire to earn short-term return with little regard as to whether a dividend or buyback is a sound capital allocation strategy.

For Paragon, neither dividend nor buyback would have thus far been a prudent deployment of capital. Had we taken any of these actions over the past several years, Paragon's intrinsic value and share price would likely be far less than it is today. Compare our acquisition of 80% of SEDC in 2017 for $1.4 million versus that same amount being paid out dividends or share repurchases. Assuming an average share price of $1.25 per Paragon share (between 2017 and 2018 Paragon shares traded between approximately $0.88 and $1.65) and 1.7 million shares outstanding, a $1.4 million dividend would have returned $0.82 per share to shareholders, a return of perhaps 70% on the share price before going ex-dividend. A buyback is a little tricker because we would have only bought shares at attractive prices. We believed the $1.25 share price at the time was undervalued so let's assume we would have bought shares up to a price of $2 per share, leading to a 60% increase in the share price (from $1.25 to $2). So, $1.4 million for a dividend or buyback would have provided immediate upside of 60% to 70% for shareholders and perhaps a little more over time due a reduced share count and perhaps any market interest in the stock. So, it would not be unreasonable to assume 100% as the return to shareholders from either of these activities, an impressive return nonetheless.

Instead, we acquired SEDC for $1.4 million in 2017, which was generating approximately $70 million in annual sales. The below chart reflects the revenues and profits of SED during the five-year period from 2018 to 2022:

	2018	2019	2020	2021	2022
Sales ($M)	$76.9	$105	$97	$134	$125
Net Profit	$450,000	$1M	$987,000	$2.9M	$2.3M

Over the past five years, our $1.4 million acquisition has yielded total *net profits* that exceed $7.5 million, *$6 million* for Paragon 80% stake. Our automation business has experienced a similar five-year period of profitability. And our shareholders have benefited from the results:

a) Paragon's share price has advanced by over 500 *percent* during that five-year period.
b) Paragon's equity has grown from $6 million at the beginning of 2018 to nearly $18 million at the end of 2022. Shares outstanding increased by less than 3% so shareholders have earned virtually all the equity growth.
c) Paragon has over $3 million in unencumbered cash and $2 million in marketable equity securities
d) Paragon owns a high-quality luxury real estate portfolio acquired with a combination of cash and 0% interest bearing debt.

We believe that Paragon, as a diversified holding company, has delivered significantly more value to shareholders than buybacks or dividends could have produced. Profitable growth is what generates durable value creation for any business. Only when the opportunity for such growth ceases to exist or when a business has more capital than it can invest at appropriate returns are dividends or buybacks likely prudent uses of capital.

The last five years have been an exceptional period for Paragon, supported by a favorable economy in the United States and Latin America. We make no assumption that the next five years will be just as favorable; capitalism ensures that periods of economic prosperity are ultimately met with periods of contraction. When or how long each economic cycle will occur is something we do not know nor spend a lot of time thinking about. Our disciplined approach to running Paragon is not a switch we turn on or off because the economy becomes more favorable.

The growth and construct of Paragon is by design. Prior to 2017, our revenues were derived from our supply chain automation business, SI Systems. Today, Paragon's business activities involve automation (SI Systems), distribution (SEDC), real estate (Ohana Home Services), and marketable securities. Our objective continues to be focused on growing our operating earnings organically and through acquisitions of other businesses in part or whole. We encourage anyone interested in learning more about our corporate culture and acquisition criteria to visit our investor relations page at www.pgntgroup.com.

Paragon's revenues were $134 million in 2022, down 5% from $142 million in the prior year. SEDC's revenue declined approximately 8% primarily as a result of increasing interest rates and volatility in the Colombian peso, SEDC's functional currency. Our automation revenues grew significantly thanks to a strong backlog entering 2022 which was discussed in detail in last year's letter.

I want to emphasize a point made in last year's letter regarding the construct of our business. SEDC's revenues currently represent the major portion (over 90% in 2022) of Paragon's revenues. However, in 2022 net income for each of our automation and distribution businesses was $1.8 million and $2.3 million, respectively. Both businesses possess earnings power, but the revenue generation for each business is different. SI sells larger specialized automation solutions that can take months to develop while SEDC can sell millions of dollars *daily* in technology products. This allocation amongst revenues and profits is important for shareholders to understand as it illustrates that the profitability of Paragon is not concentrated to the degree that revenues are.

Paragon's income before income taxes and non-controlling interest increased by 23% to $7.4 million in 2002 compared to $6.0 million in 2021. Net income attributable to Paragon was $4.7 million in 2022 versus $3.4 million in 2021. Our profits in 2022 are inclusive of realized gains of $935,000 and *unrealized losses* of $211,000, while profits in 2021 included unrealized losses of $110,000, respectively, on investment securities in our equity portfolio.

Accounting rules now require companies holding equities, as Paragon does, to report any unrealized gains or losses from those equities on our income statement. The daily volatility in equity price movements mean very little to us, but at the end of each reporting period, Paragon must now report both realized and unrealized investment gains as other income or expense. We view the reporting of unrealized gains or losses during any given quarter to be of little utility in evaluating the overall operating performance of Paragon. We encourage shareholders to recognize and understand that market fluctuations will always lead to volatility in reporting unrealized investment results, and to evaluate our operating performance accordingly.

Distribution

On a U.S. dollar basis, our 2022 distribution revenues decreased to $125 million compared to $135 million in 2021 as a result of currency devaluation. On a constant currency basis SEDC experienced robust sales and volume growth in 2022. Net income for our distribution operations in 2022 of $2.3 million compared to $2.9 million in 2021, a decrease of approximately 25 percent. The decrease was primarily attributable to the significant increase in local interest rates during the second half of the year which led to a significant increase in interest expense year over year.

SEDC has opportunistically utilized debt over the past several years to fund additional product purchases at margins that widely exceeded the cost of debt. As interest rates rose swiftly, the purchasing advantages narrowed meaningfully yet remained profitable. As interest rates began to rise in Colombia, we began reducing our debt levels and will continue to do so as needed.

While the rate of increase in rates may have been more than we anticipated, we understood that historically low interest rates could not last forever as noted in last year's letter:

To be sure, our 2021 margins were favorably impacted by the low global interest rate environment that we were able to capitalize on. As interest rates increase, some of those advantages will go away but we believe that our margins will continue to be the envy of industry.

Coupled with the rise in rates was a significant increase in the volatility of peso, which also impacts profitability. Because SEDC sells products relatively quickly, slow changes in currency have a reduced impact on our operations, but rapid volatility has a more pronounced effect. Year over year the negative currency impact was similar at approximately $1.3 million per year.

Our distribution business in Latin America will always be subject to fluctuations in currency. SEDC transacts its business in Colombian pesos which then are converted to US dollars for financial reporting purposes. As with any international business that transacts or reports in US dollars, currency fluctuations are a given. We recognize in the short run and perhaps even longer that currency volatility will always have an impact our financial results and that the impact may appear significant. Discussions with SEDC always cover the currency's effect on our business and how we can utilize *operational* decisions and strategy to deal with the currency.

But our view with regards to currency hedging has not changed at this point: we spend little time trying to engage in hedging activities. We accept the fact our ownership of an international subsidiary creates currency fluctuations. More importantly, we believe that the long-term net results of hedging currencies are generally negative. Our time is better spent focusing on what we know, as opposed to speculating on the unknown gyrations of currencies. When Paragon acquired SEDC in 2017, the Colombian peso was less than 3,000 to the dollar; today the peso is near 5,000 to the dollar, a nearly 75% devaluation against the dollar. Yet, as the earlier chart shows, our operational performance has been more than satisfactory during that time. We will always remain mindful that currency volatility can have a major impact – both favorable and unfavorable – on our operations and we will deploy any *operational* decisions to mitigate such impact whenever possible.

Automation

Thanks to a strong backlog entering in 2022, our automation business had a great year in 2022.

Our automation revenues increased by over 30% to $9.1 million, versus $6.8 million in 2021. Continued focus on efficiency and execution also led to an increase in our margins, generating profits of over $1.7 million in 2022 compared to $1 million in 2021. Last year was also very favorable in that SI also booked nearly $10 million in new business as well.

Backlog, the measure we deem most important to the financial performance of SI, was approximately $6.3 million entering 2023, a similar level from a year ago. SI's business possesses multiple revenue levers. We have a recurring revenue structure from our software support businesses, existing clients looking for expansions, modifications, upgrades, and maintenance services. Our service to our clients is long-lasting and something we take great pride in.

This year marks SI's 65th year in business. During those years SI has served the nation's biggest and most important businesses and government entities. Some of our current customers go back 20 or more years and continue today. Over the past decade SI's automation solutions have also supported dozens of small and medium businesses. Our clients utilize our technology and services to play an essential role in their supply chain. SI's value proposition is simple: we help our clients reduce costs in their supply chain while increasing their growth, accuracy, and safety of their manufacturing assembly and fulfillment operations.

Automation is generally a sticky business. Satisfied clients want to replicate what works and as our clients expand their fulfillment centers, we are often tasked with providing our solutions again. Additionally, we support our clients around the clock through our yearly maintenance and support services. Like our decades old clients that we continue to serve today, our new clients of tomorrow will represent potential opportunities for years and decades to come. Our operational approach will continue to focus on delivering exceptional value to our clients to grow our recurring revenues. We will continue to invest in business development and marketing to attract new clients given the long-term value they represent for SI. We will invest in our associates so we can continue to ensure our clients' most demanding challenges are met. As always, as we continue to pursue these strategies, we will always operate SI with the utmost efficiency and attention to expenses.

What we do for our clients – lower their input costs and increase their order output – are business needs that we believe will never go out of style.

<u>Real Estate</u>

In 2021, our subsidiary, Ohana Home Services, LLC ("Ohana"), closed on two additional real estate properties in Las Vegas. In describing that acquisition, I noted,

"*our total investment was $1.8 million,* ***of which $1.5 was financed over a staggered period of four years at a zero percent (0%) rate of interest.*** *We believe the terms provided created an opportunistic moment to add to our portfolio*." (Emphasis added)

While our purchase price of the two properties was fundamentally attractive, the sweetener was the financing. As we await to pay our notes, we can deploy the capital that otherwise would have been used in the acquisition into 4% yielding short-term Treasuries as the *base case option.* And because inflation erodes the future purchasing power of dollars, we are likely to repay these outstanding notes with dollars that are worth far less than they are today.

Our real estate portfolio rental rates remain healthy, and we have been more than able to increase our rents faster than the rate of inflation. Our real estate assets are luxury assets which tend to demonstrate more resiliency than non-luxury assets. Current market prices of our assets based on comparable sales are still trading at a comfortable premium to our acquisition prices.

Our real estate investments were acquired for income and capital appreciation purposes. We will seek to monetize our real estate holdings at favorable market prices to enable us to deploy the capital elsewhere where we find opportunity for greater long-term return on capital invested.

The tailwinds provided by Las Vegas continue to remain strong and for good reason:

- According to real estate data company Redfin, in 2022 Las Vegas ranked #2 in migration after Sacramento. Nearly 73,000 people migrated to Las Vegas in 2022, or 8.4 people every hour.
- Last November, Los Angeles County approved a mansion tax that taxes the sales of homes over $5 million. The tax goes into effect April 1, 2023, and has likely spurred the sale and relocation of city residents. Continued higher taxes in California should promote migration out of the state into lower tax states like Nevada.
- Southwest Airlines, already the largest passenger carrier to Las Vegas, released plans earlier this year to debut its largest Las Vegas flight schedule in its history with 243 daily flights into the city. Later this year that number will grow to 277 daily flights, more flights than prior to the pandemic.
- In an interview with the *Las Vegas Review Journal,* Jet Blue CEO Robin Hayes stated that, "Las Vegas is one of the main reasons we are doing this transaction," in referring to pending JetBlue/Spirit merger.
- In November of this year, Formula One will be staged Las Vegas, an economic investment of nearly $1 billion, considered to be the biggest entertainment investment in the city's history. Four months after that, Las Vegas will host the Super Bowl for the first time.

Marketable securities

Our portfolio of marketable securities was worth approximately $2.2 million as of March 20, 2023.

The following chart lists Paragon's key positions, as of March 20, 2023:

Security	Cost Basis	Market Value
Common Stock		
2,000 sh. Activision	$159,000	$158,080
8,000 sh. Occidental Petroleum	$517,040	$471,060
3,000 sh. Micron Technology	$201,120	$169,925
3,500 sh. Delta Airlines	$132,300	$115,920

Paragon has also been acquiring shares in another business that we are not disclosing at this time as we are actively acquiring shares.

Last year, Paragon disclosed it held a significant position in Rubicon Technology and that Paragon filed a white paper with the Securities and Exchange Commission outlining a plan for Rubicon that we believed was far superior to any possible outcome at Rubicon. Shortly thereafter Rubicon announced a cash buyout transaction. We would have preferred the opportunity to execute our plan as we strongly believed it offered

Rubicon shareholders a far superior share price. But Rubicon's other large shareholders had been in the stock for years watching a stagnant price. The opportunity to cash out quickly at a meaningful premium was irresistible after years of flat returns.

Paragon did very well as we had held the position for a little over a year netting an approximate 72% return higher on an annualized basis), representing a gain of approximately $700,000.

Paragon's investment objective is to acquire stakes in businesses we determine, after careful analysis, to possess a higher future value than that currently prescribed by the market today. We view our investment holdings through the lens of being part owners in businesses. If we are unable to buy entire businesses or sensibly reinvest in our existing ones, we take advantage of opportunities to invest partially in other businesses through the stock market.

As Chairman and CEO, I am also the chief risk officer at Paragon. As the Company's largest shareholder with over 90% of my shares purchased directly in the open market, my alignment is alongside our shareholders, not at their expense. I believe this alignment of interests between management and shareholders to be a fundamental tenant of long-term business success.

The Annual Meeting

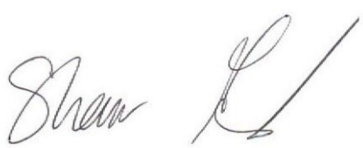
The 2023 annual meeting of shareholders will take place on **<u>Friday, May 19, 2023, at 9:00 AM PST</u>** at the following location:

Waldorf Astoria, Las Vegas
Residential Board Room – Lobby Level
3750 S Las Vegas Blvd
Las Vegas, Nevada 89158

This year again we will provide a telephone dial-in for shareholders wishing to participate virtually and we encourage shareholders to do so. Shareholders who plan to attend our meeting <u>either in person or virtually</u> will both need to contact the company to RSVP, confirm your shareholder status, and if applicable, receive the dial-in information.

We will devote the bulk of the meeting to shareholder Q&A. We highly encourage all shareholders to attend as this will provide the best forum to communicate with management. We hope to see as many of you as we can. I truly enjoy talking about Paragon with shareholders and look forward to speaking with all those who can attend.

Sincerely,



Hesham "Sham" Gad,
Chairman and Chief Executive Officer
March 27, 2023