To the Shareholders of Paragon Technologies:

Paragon's earnings per share in 2023 were $0.66 compared to $2.76 in 2022. The primary reasons for the decline were due to a decline in gross profit as well as an increase in operating expenses. Gross profit declined due to a decline in gross profit at our distribution operations mainly due to the increase in interest rates. Paragon's operating expenses increased primarily as a result of our efforts related to an equity investment.

Since present management and the board assumed control of Paragon over ten years ago, our singular focus has been to operate the business in the best interest of our shareholders, our owner partners. We make business and capital allocation decisions carefully, strategically, and opportunistically. We abhor corporate waste. We are willing to be patient longer than others in exchange for long-term growth in intrinsic value. We operate and behave in this manner because we eat our own cooking – a lot of it. Since first joining the Board of Directors of Paragon in 2009, as your Chairman and CEO I own approximately 30% of the outstanding shares in Paragon, virtually all acquired in the open market at prevailing market prices. When outside shareholder interests are correctly and significantly aligned with those of insiders, we believe that alignment to be the strongest form of fiduciary stewardship.

Over the past ten plus years, Paragon's board and I have directly seen the value creation from taking businesses with attractive assets, assigning them competent and caring management, and implementing a prudent capital allocation strategy appropriate to that business. We followed that strategy with our automation business, our distribution operations, and our investments in real estate. We believe our results and track record have been satisfactory for all our stakeholders, but we will never allow complacency to exist at Paragon. Every day is an opportunity to learn and improve.

We have also on occasion taken a similar approach with outside investments when we see a viable and transparent opportunity to unlock durable intrinsic value growth in an otherwise stagnant or underperforming business. Our distribution business, SED International Colombia (SEDC), is a case in point. SED International Holdings (SED) was a growing technology hardware distributor that began experiencing issues after a poorly executed acquisition of a consumer products distribution business. Paragon invested approximately $4.5 million in aggregate - $3.1 million in the equity of SED International Holdings beginning in 2014 subsequently followed by the $1.4 million acquisition of SEDC in 2017, the Latin America distribution operations of SED.

The scorecard of that acquisition is below:

	2018	2019	2020	2021	2022	2023
Sales ($M)	$76.9	$105	$97	$134	$125	$117
Net Income	$630,000	$1.4	$1.3	$3.7M	$2.9M	$2.1M
Profit Margin	*0.8%*	*1.3%*	*1.3%*	*2.7%*	*2.3%*	*1.8%*

The profit numbers above are for all SEDC of which Paragon owns 80 percent. Over the past six years, our $4.5 million total investment has yielded total *net profits* of approximately $12 million, approximately *$9.5 million* for Paragon 80% stake.

Paragon is not an activist investor. Our preferred approach is to seek out businesses that we can acquire in whole – or in part if that is the option – that we believe have durable business characteristics that can be further enhanced by our unbureaucratic corporate management and our obsession with treating our shareholders as our long-term partners.

Over the past ten plus years, Paragon has only made three such "non-passive" investments, which we define as those businesses where we: a) find operational and/or managerial deficiencies; b) are highly confident that Paragon is uniquely qualified to fix and improve the business for the benefit of all shareholders; and c) through our transparent expression of those deficiencies and solutions, management will listen and either take steps to make productive changes to deliver value to shareholders or have us work with the Board to deliver on that value creation. The first two investments – SED International and Rubicon Technology– have both turned out incredibly well.

Our third investment, Ocean Power Technologies, remains ongoing so discussing what may happen would be speculative and not appropriate at this time. But the Board and I realize there has been a lot of press surrounding Paragon and Ocean Power and that Paragon's shareholders naturally have the same questions we would have if the roles were reversed.

Ocean Power was a business we have known about for several years. In fact, Paragon made a small investment in Ocean Power's equity in 2020 and subsequently sold the stake later after the pandemic fueled stock market rally led to a significant appreciation in the stock. In 2021, Ocean Power made changes at the executive and Board level, and we decided to invest again.

Ocean Power was a business that satisfied our two non-passive investment criteria almost perfectly. The company, in our opinion, had some significant operational and managerial deficiencies that we believe Paragon – given our track record and operational experience – felt supremely confident we could fix and create significant upside potential for the shareholders of Ocean Power, including Paragon. The third criterion – management's openness to hear us out and make pivotal changes, was the one criterion that did not exist at all. Rather than listen to us and have a constructive engagement or seek middle ground, the Board of Ocean Power immediately took measures to effectively fence their Board from virtually all accountability to shareholders. We believe their actions were a direct result of their self-awareness of their vulnerability given the past performance of that business.

The rest of the story played out through the public dialogue that was exchanged and so there's no basis to repeat that here. As of the publication of this letter, there will likely remain some unresolved elements that we hope will lead to a successful resolution for shareholders.

With respect to Paragon, this campaign was the primary reason Paragon's operating expenses increased year over year. While our team of advisors worked incredibly efficiently, the impact to our bottom line was meaningful. Paragon's balance sheet remains strong, and we believe that we have expended the substantial portion of the expenditures related to this campaign going forward. The outcome is to be determined.

In last year's letter I noted that:

"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.

While a strong economy is a tailwind to most businesses, Paragon included, the collective efforts of our managers played the key role in delivering and growing our operating profits. Just as our managers deserve the credit, we will also take the responsibility when the economic tailwinds slow or reverse. But our approach will always remain the same: disciplined capital allocation, attention to costs big and small, and never letting complacency set in.

But those philosophies alone will not create the same result for Paragon over the next five years. Since we acquired SEDC and the turnaround at SI began to take shape, the impact of those efforts are always magnified in the beginning stages. When a business with an inconsistent record of profitability begins to demonstrate consistent and growing profits, the coiled spring is unleashed: unprofitable businesses are often unpopular and disregarded by the market given the uncertainty the market assigns to such businesses. If such a business then demonstrates earnings capability that is sustainable, the market moves quickly to reassign value.

Over the past six years since Paragon acquired SEDC, our distribution revenues have nearly doubled. SEDC's net margin has doubled -- in some years the margin tripled – creating a profound effect on net income due to the distribution business's high volume, low margin characteristics. Over the same time our automation business has seen its gross margin percentage increase by over ten percentage points.

We believe both our distribution and automation businesses have room for further growth and improvement, but that growth will now need to come from top line organic growth and/or inorganic growth through levers such as acquisition, or new products and services. Automation gross margins are almost certainly not going to go up another ten percentage points – in fact, gross margin may actually decline in the future in order to deliver scale, but that margin decline would be more than made up from the revenue uptick.

There is an old saying about the oil businesses that when oil prices are high anyone can make money. But the oil executives who can do relatively well when prices are low are the ones to bet on. We think in similar terms. Over the three year period from 2020 through 2022, Paragon had exceptional operating results in every area of its business. And while our manager operators rightly deserved credit for delivering this operational excellence, the global economy, led by the U.S., was heavily stimulated with zero percent interest rates and $1.3 trillion of economic stimulus injected in the U.S. alone. Equity prices were rising sharply. Businesses were flush with cash earning nothing, so they bought more, built more, invested more, and acquired more. Paragon surely benefited from that.

What matters most to the Board and I, however, is how we perform during all facets of the economic cycle. We can't control what happens to the economy, but we can control how Paragon will respond. We will always seek to have the strongest balance sheet possible, so Paragon's operations are not permanently or significantly compromised by worsening capital markets. We want to be in a position to take advantage of such moments of uncertainty. We will continue to seek opportunities to intelligently diversify our business operations to lessen Paragon's vulnerability from industry specific dislocations. And we will be patient and strive to avoid areas that are overhyped or those which we do not understand.

Paragon's revenues were $125 million in 2023, compared to $134 million in 2022. Net income in 2023 was $1.1 million, down from $4.7 million in 2022. As noted at the beginning of this letter, net income was impacted by our increase in operating expenses related to our investment activities as well as some expected declines in operating profit from our operating subsidiaries.

Paragon's income before income taxes and non-controlling interest was $2.7 million in 2023 compared to $7.4 million in 2022. The decline was due to a $2 million decline in gross profit dollars and the increase in operating expenses.

Net income attributable to Paragon was $1.1 million in 2023 compared to $4.7 million in 2022. Our profits in 2023 are inclusive of realized losses of $77,000 and *unrealized losses* of $215,000, while profits in 2022 included realized gains of $935,000, 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 that market fluctuations will always lead to volatility in reporting unrealized investment results, and to evaluate our operating performance accordingly.

I want to emphasize a point made in last year's letter regarding the construct of our current business. While SEDC's revenues continue to constitute a major portion (over 90% in 2022 and 2023) of Paragon's revenues, the proportion of net income from each of those two businesses will have a more balanced proportion. In 2023 operating income was $2.3 million and $4.3 million, for SI and SEDC, respectively. Both businesses possess earnings power, but the revenue generation for each business is different. SI sells larger specialized automation solutions with higher margins while SEDC sells millions of dollars *daily* in technology products with much lower margins.

<u>Distribution</u>

On a U.S. dollar basis, our 2023 distribution revenues were $117 million compared to $125 million in 2022. Net income for our distribution operations in 2023 was $2.1 million compared to $2.9 million in 2022. Net profit declined due to lower gross margins because of lower sales, coupled with a lesser impact due to the currency valuation and amount of product rebates earned in 2022.

The high interest rate environment that began to take shape in 2022 remained in 2023 in Colombia. SEDC opportunistically utilizes debt to fund additional product purchases at margins exceeding the cost of debt and enabling SEDC to generate higher gross margin. As interest rates increase, the spread between the cost of debt and purchase price advantage narrows but continued to remain profitable.

We have always believed that historically low interest rates could not last forever as noted back in 2021 when interest rates were at historic lows:

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 the industry.

We continue to believe SEDC is one of the most efficient distributors in Latin America. Since 2017, our gross margin percentage has increased, our SG&A expenses as a percentage of sales has declined by over 1 percentage, which has allowed our net margin percentage to approximately double over that time.

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. We recognize in the short run and perhaps even longer run that currency volatility will always have an impact on our financial results and that the impact may be significant.

We spend little time trying to engage in hedging activities as 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; around this time last year the peso had a historic devaluation of nearly 75% to 5,000 to the dollar and experts were calling on us to hedge further devaluation. Several months later the peso strengthened considerably and now it is approximately 3,900 pesos per US dollar. Despite the gyrations, our operational performance has been more than satisfactory during that time. Running a high velocity distribution enterprise takes enough focus on its own. 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

Our automation revenues declined to $7.8 million in 2023 versus $9.1 million in 2022. In 2021, as businesses were stimulated by the economic rebound from the pandemic, SI booked approximately $10 million in just new business which led to a very strong backlog at the start of 2022 which we knew would lead to a strong 2022. In 2022, our booking level was healthy but was not at the level of 2021, so we began 2023 with a smaller backlog than in 2022. Yet SI's continued focus on efficiency and execution enabled SI to deliver strong gross margin dollars on those sales. SI's operating income in 2023 was $2.3 million versus $2.8 million in 2022.

Backlog, the measure we deem most important to the financial performance of SI, was approximately $6.3 million entering 2023 compared with nearly $10 million the prior year. During 2023 we participated in many automation opportunities but many of them either postponed capital investment or continue to be in progress. The nature of highly specialized automation projects can lead to long lead times which are then subject to economic forces that can lead to delays or more evaluation from the client. In 2023, our bookings were similar in dollar amount than 2022; however, the vast majority of our 2023 bookings were completed in 2023. In addition, as we completed backlog projects booked in prior years, the backlog declined leading us to enter to 2024 with a backlog of approximately $3 million. But we entered 2024 with several automation system design projects completed and awaiting client approval. There's no guarantee as to when or if these approvals will come but when a project gets to this stage in the process it typically means the project will go forward.

As noted previously, SI's business possesses multiple revenue levers, an incredibly attractive characteristic. We have a recurring revenue structure from our software support businesses, existing clients looking for expansions, modifications, upgrades, and maintenance services. And in 2023 most of our bookings related to system upgrades, maintenance services, and repair and refurbishment. While we booked a reasonable amount of businesses, these types of projects are typical smaller in size and are usually completed in a short period of time.

SI Systems is an iconic automation company that is now in its 66th year of operation. But the SI of today is not the business it used to be. Prior to my joining the board of the company, SI was one of the preeminent automation suppliers in the industry. At one point SI owned what is now one of the largest conveyor suppliers in the U.S…if only.

SI today remains an invaluable but niche supplier of high-speed order fulfillment automation and production and assembly automation. But today's automation needs have become more and more specialized and integrated. Clients often want to achieve as close to 100% automation as possible so many systems often require several if not dozens of integrated components that can often require the participation of several niche suppliers. On one side of the automation industry, you have the large system integrators like Dematic and Schaeffer Systems, multibillion dollar enterprises that can put together the most complex systems. Even still, these titans require the support of niche automation providers to complete the solution. On the other side you have the regional integrators who operate more like general contractors and put together all the pieces for "smaller" automaton solutions.

SI Systems is in yet another bucket of being a provider of automation technology with some integration capabilities. We harbor no illusions of becoming of major systems integrator nor do we need to be. Most fulfillment centers – warehouses - are not the million square foot or more mega centers owned and operated by the likes of Amazon, Wal-Mart and other giants which are the domain of large integrators. The majority of other fulfillment centers are the opportunities for SI but we will need to further refine and expand our capabilities as our clients' desire to automate as many aspects as possible of their supply that they can. We believe we see interesting opportunities to expand SI's presence in our area of automation through measured investments. Our capital allocation approach in doing so will be focused and measurable. Material handling automation shows no signs of decline, but we will be shrewd and opportunistic in finding ways to widen SI's capabilities in the future. The customers we currently serve, and ones interested in what we do, are comprised of inspiring smaller businesses all the way up to well-known Fortune 500 names. We are continuously learning from their needs to position SI to compete and earn that business.

It's worth repeating that automation is generally a sticky business with clients that want to replicate what works. We also support our clients around the clock through our software maintenance and support services so our new clients of tomorrow will represent potential opportunities for many years to come. Our operational approach will continue to focus on delivering exceptional value to our clients to grow our recurring revenues. As we continue to invest in SI and 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.

Real Estate

In 2021, our subsidiary, Ohana Home Services, LLC ("Ohana"), closed on two additional real estate properties in Las Vegas that were each seller financed for a period of three years at the now unheard interest rate of zero percent. Ohana financed $1.5 in aggregate. In 2023 Ohana paid off one of the notes and will pay off in the final note late in 2024.

Our confidence for investing in real estate in Las Vegas remains unaltered. Las Vegas continues to become a city known less for its gambling and more as a place for world class dining and entertainment, business investment and migration. Seemingly every single year since the pandemic Las Vegas has delivered headline making accomplishments.

As a world class dining, entertainment (and now sports) destination, migrants are undoubtedly finding more reasons to permanently relocate to the Silver State. Lower costs of living and absence of state income tax are significant tailwinds to this trend which have made Nevada the nation's sixth-highest state with net migration.

In a span of less than four months Las Vegas hosted a Formula One Gran Prix and the Superbowl, both of which generated record economic impact to Las Vegas and exceeded expectations by the governing bodies of those events. According to the LV Convention and Visitors Bureau, F1 had a net economic impact of $1.5 billion while the Super Bowl produced $1 billion. While the economic impact of such events is primarily fueled by tourists, the long-term impact is the attraction of new business, investment, and migration. The Harry Reid Research and Technology Park is a rapidly growing development attracting small and large technology companies and start-ups.

When we acquired our first property in 2017, professional sports were a vision coming to fruition in Las Vegas. Today, Las Vegas currently has a championship winning NHL team, an NFL team, and a championship winning WNBA team. A Major League baseball team has already been confirmed. Talks of an NBA team are becoming more and more active, and I believe it's only a matter of time before Vegas completes the major professional sports grab and lands a Major League Soccer team. I believe there are only 13 U.S. cities that hold teams in all four – NHL, NBA, NFL, MLB – major sports leagues (sadly my favorite sport, fútbol, or soccer, is not considered a major sport in the U.S. but it will happen!). Of those 13 cities, depending on how you count, only 9 cities have all five. I believe Vegas will be in that esteemed group in the coming years. Sports is arguably the most lucrative entertainment category in history and it’s no coincidence that sports franchises are attracted to the most economically vibrant and diverse locations.

Our real estate portfolio rental rates remain healthy and our real estate assets are luxury assets which tend to demonstrate more resiliency in all economic cycles 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.

Marketable securities

Our portfolio of marketable securities was worth approximately $1.8 million as of March 31, 2024. The following chart lists Paragon’s key positions, as of March 31, 2024:

Security	Cost Basis	Market Value
Common Stock		
1,000 sh. Citigroup	$49,874	$63,240
22,000 sh. Manchester United PLC	$386,425	$307,120
8,000 sh. Occidental Petroleum	$517,092	$519,920
2,378,320 sh. Ocean Power Technologies	$1,074,495	$630,255

Paragon’s investment in Manchester United, one of the most iconic fútbol (soccer in the U.S.) clubs in the world is based on my continually growing view that the sports business is growing and becoming more valuable than previously imagined. The markets are so consumed with artificial intelligence and cryptocurrency happenings that the growing value of sports assets may be hiding in plain sight. According to Forbes, the world’s 50 most valuable sports teams are now worth a combined $256 billion, up 15% year over year.

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 **Wednesday, June 5, 2024 at 8 AM PST** at the following location:

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

This year's meeting will be in person only and we encourage as many shareholders as possible to attend. Come add to the economic impact of Las Vegas! Shareholders who plan to attend our meeting will need to contact the company to RSVP and confirm your shareholder status. If you plan to attend, please contact us at ir@pgntgroup.com. We should be able to confirm your status with your name, otherwise a screenshot or otherwise verifying your Paragon ownership as of the record date will suffice.

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
April 18, 2024