To the Shareholders of Paragon Technologies, Inc. ("Paragon"):

Paragon's per share book value increased by 50% in 2020, to $5.98 per share, compared with $3.99 per share in 2019. As noted in previous letters, Paragon's transformation into a diversified holding company with distinct operating subsidiaries renders book value less meaningful than before. For example, Paragon's real estate subsidiary Ohana Home Services owns real estate that is reflected at cost on our balance sheet. Over time if, as we believe, our real estate holdings continue to appreciate, that value will not be reflected on our balance sheet until the assets are monetized. Additionally, based on the potential future earning power and growth of our businesses, we believe that they are in aggregate worth substantially greater than book value.

Our growth in book value in 2020 reflects Paragon's growth in net profit over the prior year. Our efforts over the last three years have made Paragon a more resilient business today. Prior to 2017, our revenues were derived from just one source, our supply chain automation business, SI Systems. Our operating earnings today come from automation, distribution, real estate and, to a much lesser extent, our investment portfolio. Our objective is to continue 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 $108 million in 2020, a decline of 4 percent from 2019's figure of $113 million. A substantial portion of Paragon's revenues are derived from our distribution operations in Latin America, which are conducted in pesos and then converted into U.S. dollars for reporting purposes. On a local currency basis, our distribution revenues increased by 2.5 percent year over year. We point this out to reiterate that as a U.S. company with a foreign subsidiary generating a significant portion of Paragon's revenues, Paragon is subject to currency fluctuation. However, we spend little time trying to manage or predict which direction the currency winds will blow and instead focus all our time trying to grow the business, optimize efficiency, and grow market share.

Paragon's income before income taxes and non-controlling interest increased by 167% to $5.6 million in 2020 compared with a pre-tax income of $2.1 million in 2019. Net income attributable to Paragon in 2020 was $3.6 million compared to net income of $1.0 million in 2019. Our profits in 2020 and 2019 are inclusive of *unrealized gains* of $60,000 and $113,000, respectively, on investment securities in our equity portfolio.

My ultimate responsibility is to ensure that Paragon is managed and operated prudently enough to withstand the inevitable shocks to the business environment. Economies and industries go through oscillating periods over periods of time. What I do not know – and I would be wary of anyone who claims they know – is when those shocks will occur, their duration, and what effect they may have on Paragon's operations. We manage the risks associated with this uncertainty the only way we can: we operate Paragon with discipline and prudence, eschewing excessive leverage, and maintaining vigilance over costs big or small. This discipline then *enables us to be aggressive and act quickly* when we are presented with opportunities to take advantage.

Beginning in 2018, accounting rules required companies holding equities, as we do, to report any unrealized gains or losses from those equities on our income statement. It is important for shareholders to understand the significance of this rule and the impact it will have on Paragon's reported future net income. On any given day, equity prices move up and down based on the opinions of market participants. In the short run these movements mean very little to us.

We are of the opinion that the reporting of unrealized gains or losses during any given quarter bears little significance in evaluating the overall operating performance of Paragon. Paragon will likely continue to hold marketable securities and so there will be an impact to our earnings from our investment activities. 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 distribution revenues declined 8 percent to $97 million compared to $105 million in 2019 while net income, after accounting for currency adjustments, declined by 3 percent to $1.0 million compared with $1.02 million in 2019.

Not all distribution companies in Colombia fared as well as SEDC in 2020 because of the global pandemic. Tremendous credit goes to our nearly 200 associates led by our President, Ronell Rivera. Warren Buffett aptly observed that "when the tide goes out you know who is swimming naked." The tide went out in 2020 and exposed many distributors who operated aggressively and with little discipline.

The distribution business is fundamentally a finance business. A distributor's role is simple to define but difficult to execute successfully over the long-term. We purchase, warehouse, sell, and deliver a lot of inventory every day earning a small slice of profit per dollar of sales. Small errors in purchasing, delivery, collections – any part of the distribution process – can have magnifying effects on profitability.

SEDC distributes technology hardware and software products that are commodity-like in that prices matter a lot to customers. Our Dell workstations are the same as our competitors. And most major distributors with whom we compete distribute the same major brands as we do. Yet SEDC generates more than double the net profit margin per dollar of sales than our major competitors. In 2019, SEDC ranked as the sixth largest distributor by revenues in Colombia but number three based on net profit. While others may focus on being the longest train, we want to be the train that gets the furthest on the least amount of fuel. We expect to gain ground on these metrics in 2020.

What we believe we do better than most in our distribution operations is provide superior logistical service across all facets of our distribution channel. We have the products our customers need when they need it. We believe our logistical infrastructure sets us apart from many of our competitors and that over time, our operational performance will continue to widen the gap between our business and the competition. Our knowledge of the industry, our rational behavior, and our logistical superiority is the moat we aim to widen each day.

Automation

Our automation business had an exceptional year in 2020, as our focus on data analysis, targeted marketing, and a process driven approach is bearing tangible results. All seven moons aligned for SI Systems in 2020. We began the year with over $7 million in backlog, the largest recorded backlog since current management assumed control in 2012. Our gross margins improved due to improved pricing discipline and cost control due to a refined data driven process. And SG&A expense as a percentage of sales declined as we continued to focus on managing our costs prudently.

SI Systems' reported sales of $11 million, up approximately 50% from the prior year. Net income increased to $2.3 million compared to $500,000 in 2019. Included in net income is nearly $500,000 that SI received as a PPP loan that was subsequently forgiven and thus recorded as other income.

In real estate, the saying is: location, location, location. In our automation business, it is backlog, backlog, backlog.

We are proud of our 2020 results, yet we expected 2020 to be a good year due the healthy backlog. Our new bookings were lighter in 2020 as many companies put a temporary hold on their automation projects because of the global pandemic. As such our year end 2020 backlog was just under $4 million, compared to approximately $7 million the prior year.

The shock to the economy last March only solidified the long-term benefits – reduced labor, faster and more accurate order fulfillment rates, increase in safety and productivity – of automation. We are seeing increased interest in our automation solutions. The life cycle of a project from indication of interest to purchase typically takes many months. SI Systems continues to invest in our data driven marketing efforts to increase awareness of our systems and solutions to the expanding pool of customers looking to automate. Over the past several years we have supplied automation solutions to various e-commerce companies, businesses that did not or could not have existed a decade ago.

For the benefit of both Paragon's new and existing shareholders, SI System's material handling operations consist of two distinct divisions, OFS (order fulfillment solutions) and PAS (production and assembly solutions). Our PAS division provides automated material handling in ground conveyance solutions to industrial manufacturer assembly lines and distribution center operations. In the 2016 letter to shareholders I stated, "We don't see the size of this market growing and in fact it will likely shrink over time – it's the "old" material handling business. But SI Systems is perhaps the best-known provider of towline and conveyor systems in the industry today."

Boy, was I wrong. Yet as new industrial applications are emerging (electric vehicle car production, for example) as well as growth from industrial applications who are upgrading or expanding their existing operations, SI is seeing growing interest from a wider variety of customers. Additionally, SI Systems is broadening its PAS capabilities through our introduction, via a partner, of an SI branded automated guided vehicle, commonly known as an AGV.

Our PAS and OFS businesses generate revenues after the initial projects, in many cases for many years. Our PAS systems are sold primarily to end users, who then typically rely on SI for future enhancements, expansions, replacement parts or repairs to the system. This aftermarket business generates significant margins for us. Our customer relationships tend to be long-lasting, and we benefit enormously from an existing installed base of high-quality customers who come to us for replacement and enhancement projects for years after system installation. So, every new project not only provides us with revenues today, but revenues for years to come as systems age or expand.

The revenue chain from our OFS is similarly attractive. Our order fulfillment solutions involve both hardware and software required to run that hardware within our customers supply chain ecosystem. We sell annual software support services to nearly all our OFS customers. In aggregate our software support revenues represent consistent and growing portion of our annual revenues.

A principal reason we remain optimistic about the future of our automation business is automation enables supply chains to work faster at a lower cost. Amazon founder Jeff Bezos likes to say that unlike most businesses that spend most of their strategic efforts focusing on how to adapt to change, he spends his time thinking about what *will not* change in the future. In the case of Amazon, customers want their goods cheaper and available to them sooner. Automation provides those productivity enhancing benefits to the supply chain. By minimizing labor needs, supply chains not only eliminate tangible costs in the form of payroll expense but also intangible costs in the form of lost productivity to replace workers. Additionally, automation significantly reduces order fulfillment error rates while substantially increasing the number of orders fulfilled per hour. I've yet to come across any customer that desires higher prices or slower service. Automation delivers supply chain attributes that never go out of style.

Real Estate

Our wholly owned subsidiary, Ohana Home Services, LLC ("Ohana"), acquired residential real estate in Las Vegas in two separate transactions in December 2017 and January 2018. We acquired our real estate for income and capital appreciation purposes. Ohana continues to lease its real estate to generate positive cash flow for the foreseeable future and may seek to monetize its real estate holdings at favorable market prices. In 2020 all our holdings were fully leased throughout the entire year at what we believe to be very strong rental rates in the current market.

In 2021 Ohana executed two agreements to acquire additional properties in the Las Vegas market. The total investment will be $1.8 million financed over a staggered period of four years at a zero percent (0%) rate of interest. These properties are also being acquired for cash flow and capital appreciation purposes.

We remain very optimistic on the long-term future of Las Vegas. Notwithstanding the current healthcare crisis affecting the United States, Las Vegas continues to remain a migration destination for both individuals and business. Despite the undeniable setback laid on the city because of the global pandemic, we expect to see continued population growth in Las Vegas, as both young and old are increasingly attracted to entertainment options, the addition of professional sports teams, an attractive climate to launch and relocate business, and lower taxes.

Marketable securities

The following chart lists Paragon's key minority investments, as of Feb 28, 2021:

Security	Cost Basis	Market Value
Common Stock		
272 sh. Amcon Distribution	$21,146	$32,327
21,175 sh. Exco Resources	$11,021	$54,505
1,000 sh. Micron Technology	$42,076	$91,530
4,271 sh. National Security Group	$51,203	$50,974

Our largest position, a technology company, is currently valued at $140,000 versus a cost basis of $134,785. We are considering strategic alternatives and may continue to acquire a larger stake over time.

Paragon's investment philosophy has always been anchored on investing in a businesslike manner. Our 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 transact in securities 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.

On occasion, market dislocations create moments to take advantage of short-term pricing inefficiencies. On such occasions, we will seek to be opportunistic. Nevertheless, when I observe and study the most successful long-term investment track records, a common theme emerges: many of those track records are a result a relatively few investments that have been held for many, many years and are compounding over and over, tax free. (In case you did not know, unrealized capital gains are effectively a tax-free loan from the government). In investment parlance, this approach is often referred to as buy and hold.

There is no shortage of media opinion proclaiming that the "buy and hold" approach is dead. The Wolf of Wall Street Jordan Belfort aptly noted "Every person wants to get rich, and they want to get rich quickly. They all want something for nothing." Yet time and time again, the evidence proves otherwise. The greatest fortunes made from stocks is by those individuals who have held on to great businesses for decades. And I am not only talking about the Buffett's, Bezos's, Musk's, and Walton's of the world. In 2017, Fidelity investments conducted an internal study analyzing the performance of customer accounts from 2003 to 2013. Fidelity discovered those individuals with the best returns were either "dead or inactive." Google "Fidelity dead investors" and see for yourself.

A few years ago, Arizona State finance professor Hendrik Bessembinder, uncovered a startling fact about the stock market: over a 90-year span between 1926 and 2016, 96% of all stocks collectively performed *no better than risk-free 1-month Treasury bills*. Read that last sentence again. Bessembinder analyzed the lifetime returns of nearly 26,000 common stocks and determined that 1,096 of those stocks, or roughly 4% of the total, generated *all* of the $35 trillion in wealth created for shareholders during that 90-year span. Unfortunately, this is not the type of news that gets promoted because it is not what sells and certainly does not promote the money management business.

What is perhaps more important from the professor's discovery is the realization that trying to identify those stocks that comprise the 4% is all but impossible for the supermajority of investors. Professional investors hardly have any advantage over the individual, as Vanguard founder John Bogle has aptly observed that no less than 80% of active money manager fail to outperform the S&P 500 index each year.

Durable businesses tend to build their business around patterns and needs that change very little over time. Amazon is as innovative as a company as any, but the foundation of their business is to provide customers products at the best possible price delivered in the shortest amount of time. I would bet in the next 50 years, consumers will still desire low prices, safety, convenience, speed, and happiness. Companies that provide these basics needs in one way or another are likely to flourish for decades, taken over, or replaced by those who do it *better*. Ultimately, patient, inactive stock market participants will too find themselves flourishing over the long term.

As I look back at Paragon's investment activities in marketable securities, they have been unsatisfactory to me *when I consider the relative result had we simply spent more time doing less and holding on for longer*. We used to own names like Chipotle, Amazon, and Tractor Supply that we exited at a healthy gain yet underestimating the truly enormous competitive advantages these business and others like them are expanding each day.

As a company, Paragon has some structural competitive advantages with respect to the management of its investment portfolio that provides us with an enormous edge. Paragon has no fixed time so we can truly take an unencumbered long-term approach.

As Chairman, CEO, and chief capital allocator at Paragon, I am also the Company's largest shareholder with over 90% of my shares purchased directly in the open market. I will benefit alongside our shareholders, not at your 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 2021 annual meeting of shareholders will take place on **Monday, May 17, 2021 at 8:00 AM PST** at the following location:

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

Again this year, for the safety and health of our stakeholders, we will provide a telephone dial-in for shareholders wishing to participate virtually and we encourage as many shareholders to do so. Shareholders who plan to attend our meeting either in person or virtually 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
April 1, 2021