



Capital Southwest Corporation

Q1 2017 Earnings Presentation

August 9, 2016

Forward-Looking Statements

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Conference Call Participants

Bowen S. Diehl

President and Chief Executive Officer

Michael S. Sarner

Chief Financial Officer

Chris Rehberger

VP Finance / Treasurer

CSWC Company Overview

CSWC has refocused its investment strategy to become a lender to middle-market companies across the capital structure

- CSWC was formed in 1961, and became a BDC in 1988
- Publicly-traded on Nasdaq under CSWC ticker
- Internally-managed BDC with RIC status for tax purposes
- In December 2014, announced split into two separate companies with spin-off of industrial growth company (“CSW Industrials”; Nasdaq: CSWI) which was completed September 30th, 2015
- 15 employees based in Dallas, Texas
- Investable capital base of approximately \$273 MM
- CSWC has made significant strides towards rotating its investment portfolio from equity to credit

CSWC Corporate Strategy

- Building a BDC that pays shareholders attractive and sustainable dividends by establishing:
 - A portfolio of investments balanced between liquid and illiquid asset classes
 - A portfolio of predominantly cash generating loans
 - An investment discipline focused on granularity and diversity across asset classes
 - Consistent NAV per share growth through selective equity co-investments
 - A match of fixed and floating rates with financing sources
- Maintaining a shareholder friendly Internally Managed structure which:
 - Aligns management incentives with shareholder value
 - Incurs lower operating expenses versus the Externally Managed Structure
 - Historically has rewarded performing Internally Managed BDCs with price to book premiums of 0.5x versus Externally Managed peers
- Continuing to execute on our I-45 SLF joint venture with Main Street which:
 - Enhances CSWC origination capabilities in the middle market
 - Grows recurring cash income by investing in a pool of granular and diversified larger middle market first lien loans
 - Cultivates relationships with financial institutions within the Senior Loan Fund credit facility
- Pursuing an SBIC License and participation in the Debenture Program to capitalize our smaller lower middle market investment strategy

Two Pronged Investment Strategy

Lower Middle Market: CSWC led or club deals

- Companies with EBITDA greater than \$3 MM
- Typically leverage of 2x – 4x Debt to EBITDA through CSWC debt
- Commitment size up to \$20 million with hold sizes of \$5 MM to \$15 MM
- Originate both Sponsored and Non-sponsored debt investments
- Securities include first lien, unitranche, second lien and subordinated debt
- Non-control equity co-investments alongside debt investments

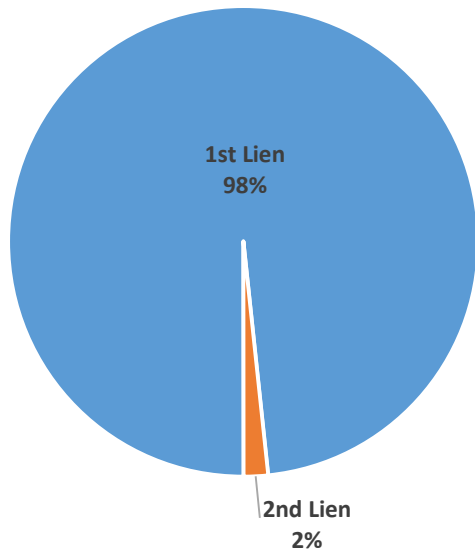
Upper Middle Market: Participate/Purchase First and Second Lien positions

- Companies typically have in excess of \$50 MM in EBITDA
- Typically leverage of 3x – 5.5x Debt to EBITDA through CSWC debt position
- Hold sizes of \$5 MM to \$7 MM
- Floating Rate First and Second Lien debt securities
- More liquid assets relative to Lower Middle Market investments
- Provides flexibility to invest/divest opportunistically based on market conditions and liquidity position

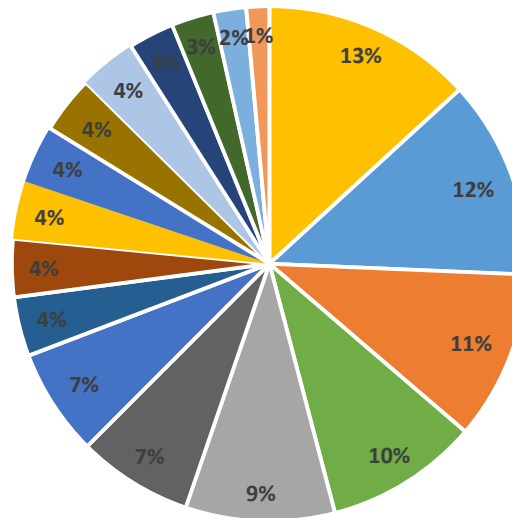
I-45 Senior Loan Fund Portfolio

Invested \$4 MM additional equity to fund I-45 loan portfolio growth to \$134 MM

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics			
	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>Q1 2017</u>
Total Debt Investments at Cost	\$82,508	\$99,836	\$134,222
Number of Issuers	19	24	31
Avg. Investment Size as a % of Portfolio	5.26%	4.17%	3.23%
Wtd. Avg. CSWC Leverage on Investments	3.3x	3.3x	3.7x
Wtd. Avg. Yield to Maturity	7.59%	7.85%	8.36%
Wtd. Avg. Duration (Yrs)	4.5	4.2	4.2

Q1 2017 Portfolio Originations

In Thousands

Q1 2017 Portfolio Originations					
Name	Industry	Type	Market Segment	Par Value	Yield
Infogroup	Software & IT Services	1st Lien	Upper Middle Market	\$1,734	L + 5.5% (1.5% Floor)
Total				\$1,734	

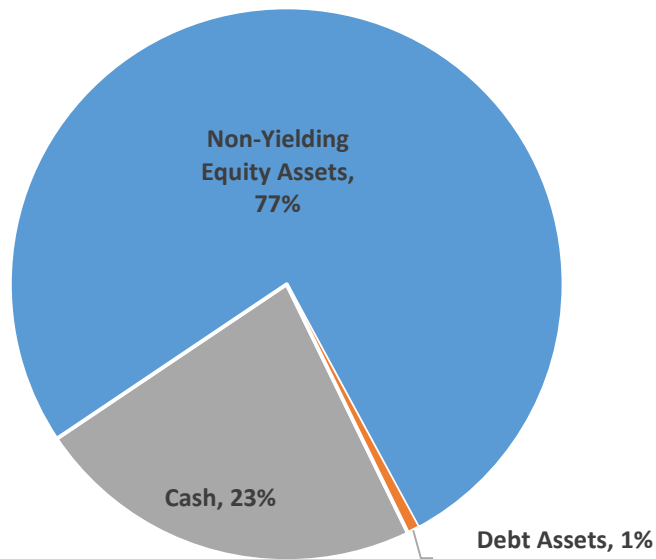
Portfolio Originations - Since Quarter End					
Name	Industry	Type	Market	Par Value	Yield
Infogroup	Software & IT Services	1st Lien	Upper Middle Market	\$2,204	L + 5.5% (1.5% Floor)
Imagine! Print Solutions	Media, Marketing, & Entertainment	1st Lien	Upper Middle Market	\$900	L + 6.0% (1.0% Floor)
Amware Fulfillment, LLC	Transportation & Logistics	1st Lien	Lower Middle Market	\$13,400	L + 9.5% (1.0% Floor)
Middle Market Club	Undisclosed	1st Lien	Upper Middle Market	\$10,000	L + 9.0% (1.0% Floor)
Total				\$26,504	

Portfolio Rotation Focused on Credit

- Since June 2014, CSWC has transformed its investment portfolio increasing income earning assets from 1% of the investable portfolio to 58%
 - Exited 21 legacy portfolio equity investments, generating \$222 MM in proceeds
 - Invested \$102 MM in 18 middle-market credit investments
 - Invested \$152 MM in 33 credits within I-45 Senior Loan Fund (“I-45”)

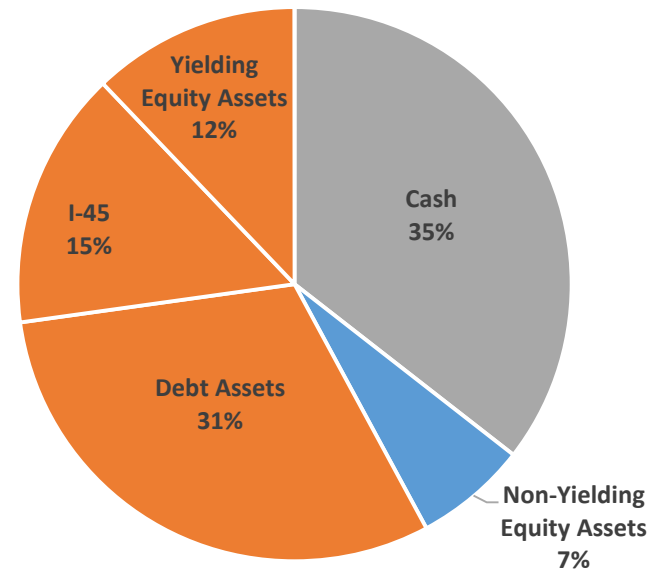
6/30/2014 (excl. CSWI Companies)

1% of Total Assets Generating Recurring Income



6/30/2016 Investable Assets

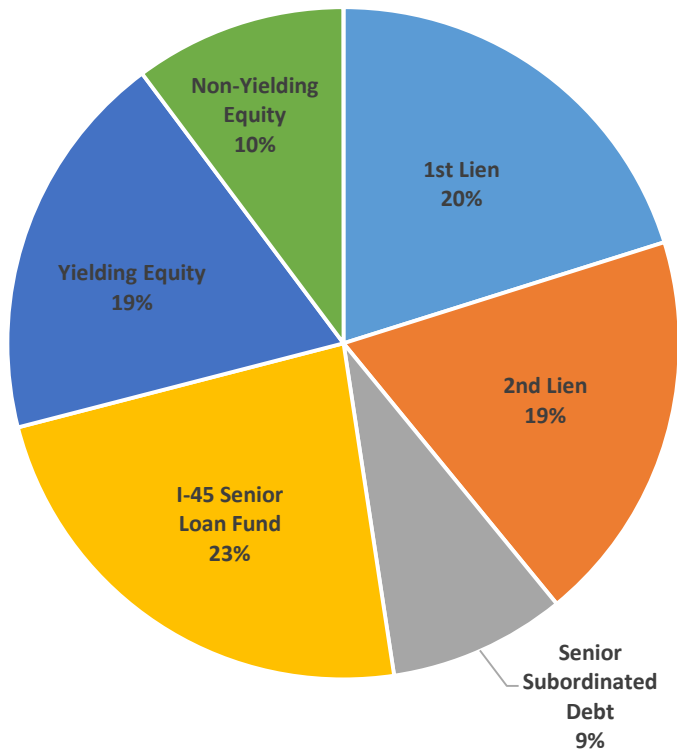
58% of Total Assets Generating Recurring Income



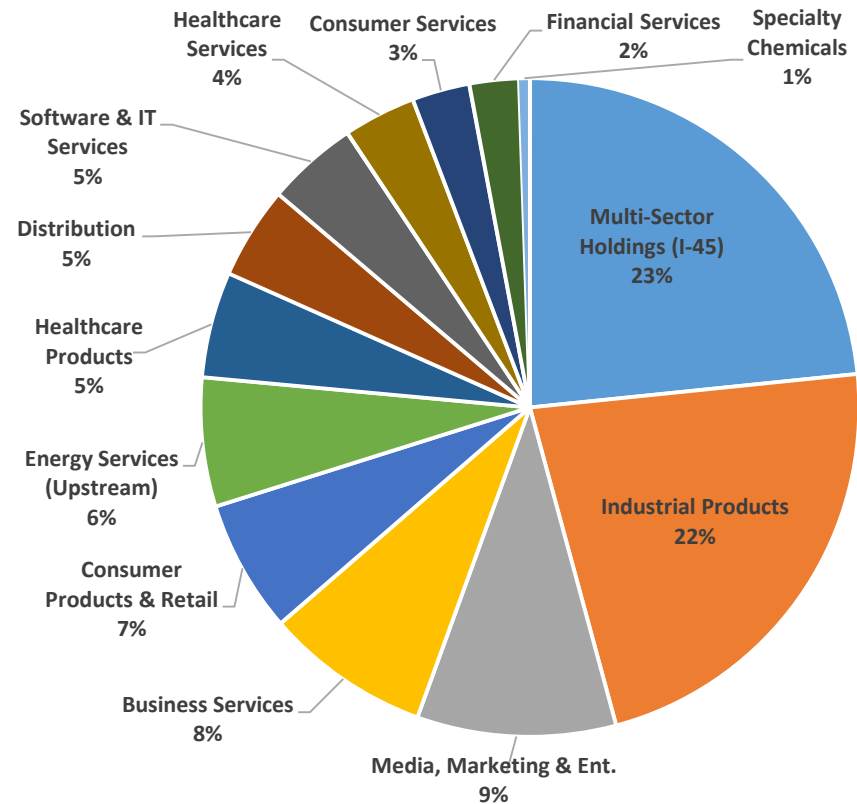
Portfolio Mix as of 6/30/16 at Fair Value

Current Portfolio of \$178 MM continues to be granular, diverse, and focused on income generating securities

Current Investment Portfolio (By Type)



Current Investment Portfolio (By Industry)



Q1 2017 Highlights

Financial Highlights

- Q1 2017 Pre-Tax Net Investment Income of \$918 K or \$0.06 per weighted average diluted share
- Paid quarterly dividend of \$0.06 per share
- No non-accruals within debt investment portfolio
- Increased I-45 Senior Loan Fund investment portfolio to \$134 MM from \$99 MM
 - Increased Deutsche Bank led Credit Facility to \$120 MM from \$100 MM
 - I-45 distributed \$1.1 MM dividend to CSWC during the quarter
- \$11.1 MM principal repayments during the quarter
 - Freedom Truck Finance (\$6 million proceeds / 14.3% IRR)
 - Bob's Discount Furniture (\$5 million proceeds / 15.1% IRR)
- \$97 MM in cash available for investment activity

Key Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/2015	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016
Financial Highlights				
Pre-Tax Net Investment Income / (Loss) Per Wtd. Avg. Diluted Share	(\$0.59)	(\$0.04)	\$0.04	\$0.06
Dividends Per Share	\$0.00	\$0.00	\$0.04	\$0.06
NAV Per Share	\$17.68	\$17.22	\$17.34	\$17.39
Cash & Cash Equivalents	\$184,111	\$143,680	\$95,969	\$96,957
Debt to Equity	0.0x	0.0x	0.0x	0.0x
Shares Outstanding	15,583	15,725	15,726	15,718
Weighted Average Shares Outstanding (Diluted)	15,680	15,751	15,795	15,791
Portfolio Statistics				
Fair Value of Debt Investments	\$45,115	\$60,929	\$92,832	\$83,730
Average Debt Investment Hold Size	\$5,013	\$5,077	\$5,157	\$4,925
Fair Value of Debt Investments as a % of Cost	100%	100%	99%	99%
% of Debt Portfolio on Non-Accrual (at Fair Value)	0.3%	0.0%	0.0%	0.0%
Weighted Average Investment Rating ¹	N/A	2.0	2.0	1.9
Weighted Average Yield on Debt Investments	10.11%	10.31%	10.67%	10.08%
Total Fair Value of Portfolio Investments	\$93,339	\$134,935	\$178,436	\$175,915
Weighted Average Yield on all Portfolio Investments	4.37%	10.82%	9.46%	9.35%
Investment Mix (Debt vs. Equity) ²	47% / 53%	57% / 43%	65% / 35%	62% / 38%
Investment Mix (Yielding vs. Non-Yielding)	80% / 20%	89% / 11%	90% / 10%	90% / 10%

¹ CSWC utilizes an internal 1 - 4 investment rating system in which 1 represents material outperformance and 4 represents material underperformance. All new investments are initially set to 2.

² Excludes CSWC equity investment in I-45 Senior Loan Fund

Balance Sheet Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/2015	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016
Assets				
Portfolio Investments	\$93,339	\$134,935	\$178,436	\$175,915
Cash & Cash Equivalents	\$184,111	\$143,680	\$95,969	\$96,957
Deferred Tax Asset	\$1,649	\$1,544	\$2,342	\$1,874
Other Assets	\$6,551	\$6,421	\$7,746	\$6,110
Total Assets	\$285,650	\$286,580	\$284,493	\$280,856
Liabilities				
Payable for Unsettled Transaction	\$0	\$4,850	\$3,940	\$0
Income Tax Payable	\$0	\$2,948	\$0	\$601
Other Liabilities	\$10,059	\$7,997	\$7,918	\$6,971
Total Liabilities	\$10,059	\$15,795	\$11,858	\$7,572
Shareholders Equity				
Net Asset Value	\$275,591	\$270,785	\$272,635	\$273,284
Shares Outstanding at Period End	15,583	15,725	15,726	15,718
NAV per Share	\$17.68	\$17.22	\$17.34	\$17.39
Debt to Equity	0.0x	0.0x	0.0x	0.0x

Income Statement Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/15	Quarter Ended 12/31/15	Quarter Ended 3/31/16	Quarter Ended 6/30/16
Investment Income				
Interest Income	\$945	\$1,415	\$2,110	\$2,292
Dividend Income	\$0	\$1,612	\$1,578	\$1,769
Fees and Other Income	\$133	\$280	\$123	\$96
Total Investment Income	\$1,078	\$3,307	\$3,811	\$4,157
Expenses				
Cash Compensation	\$3,411	\$1,675	\$1,403	\$1,484
Share Based Compensation	\$370	\$195	\$257	\$239
General & Administrative	\$1,070	\$1,354	\$1,192	\$1,344
Spin-off Related Expenses	\$5,474	\$710	\$251	\$172
Total Expenses	\$10,325	\$3,934	\$3,103	\$3,239
Pre-Tax Net Investment Income / (Loss)	(\$9,247)	(\$627)	\$708	\$918
Taxes and Gain / (Loss)				
Income Tax Benefit (Expense)	(\$88)	\$607	\$788	(\$547)
Net realized gain (loss) on investments	(\$3,396)	(\$8,170)	\$12	\$199
Net increase (decrease) in unrealized appreciation of investments	\$3,783	\$7,060	\$1,001	\$2,127
Net increase (decrease) in net assets resulting from operations	(\$8,948)	(\$1,130)	\$2,509	\$2,697
Weighted Average Shares Outstanding	15,680	15,751	15,795	15,791
Pre-Tax Net Investment Income Per Weighted Average Share	(\$0.59)	(\$0.04)	\$0.04	\$0.06
Dividends Per Share	\$0.00	\$0.00	\$0.04	\$0.06

Investment Income Detail

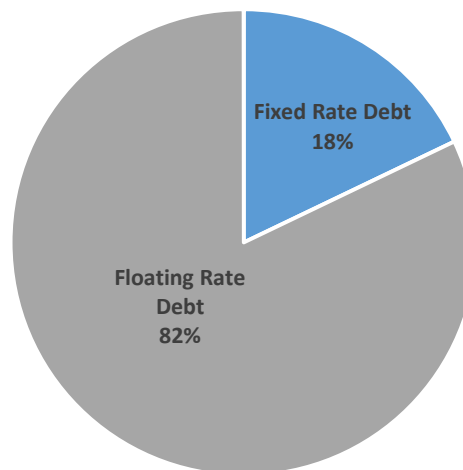
Constructing a portfolio of investments with recurring cash yield

<i>(In Thousands)</i>	Quarter Ended 9/30/2015	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016
Investment Income Breakdown				
Cash Interest	\$930	\$1,392	\$2,063	\$2,216
Cash Dividends	\$0	\$1,612	\$1,578	\$1,769
Management Fees	\$133	\$275	\$115	\$95
Amortization of purchase discounts and fees	\$15	\$23	\$47	\$76
Other Income (non-recurring)	\$0	\$5	\$8	\$1
Total Investment Income	\$1,078	\$3,307	\$3,811	\$4,157
Key Metrics				
Cash Income as a % of Investment Income	98.6%	99.3%	98.8%	98.2%
% of Total Investment Income that is Recurring	100.0%	99.8%	99.8%	100.0%

Interest Rate Sensitivity

Impact of Base Rate Changes on Net Investment Income

Debt Portfolio Composition



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
50 bps	(\$61,563)	(\$0.00)
100bps	\$437,577	\$0.03
150bps	\$1,001,926	\$0.06
200bps	\$1,566,276	\$0.10

Note: Illustrative change in NII is based on a projection of our existing debt investments as of 6/30/16, adjusted only for changes in Base Rates. The results of this analysis include the I-45 Senior Loan Fund, which is comprised of 100% floating rate assets and liabilities.

Corporate Information

Board of Directors

Inside Directors

Joseph B. Armes
Bowen S. Diehl

Independent Directors

John H. Wilson
William R. Thomas
T. Duane Morgan
David R. Brooks
Jack D. Furst

Corporate Offices & Website

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13th Floor
Dallas, TX 75240
<http://www.capitalsouthwest.com>

Senior Management

Bowen S. Diehl
President & Chief Executive Officer

Michael S. Sarnar
Chief Financial Officer, Secretary & Treasurer

Investor Relations

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Capital Southwest
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Securities Listing

NASDAQ: CSWC

Fiscal Year End

March 31

Independent Auditor

Grant Thornton
Dallas, TX

Corporate Counsel

Thompson & Knight / Jones Day
Dallas, TX

Transfer Agent

American Stock Transfer & Trust Company, LLC
800-937-5449
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