



Capital Southwest Corporation

Q3 2017 Earnings Presentation

February 7, 2017

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

In January 2015, CSWC 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 intent to split into two separate companies with tax-free spin-off of industrial growth company (“CSW Industrials”; Nasdaq: CSWI) which was completed September 30th, 2015
- 17 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$312 MM as of December 31, 2016
- CSWC has made significant strides towards rotating its investment portfolio from equity to credit

CSWC Corporate Strategy

- Build 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
- Maintain a shareholder friendly Internally Managed structure which:
 - Aligns management incentives with long term sustainable shareholder value creation
 - 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
- Continue to execute on our I-45 SLF joint venture with Main Street which:
 - Enhances CSWC origination capabilities in the upper middle market
 - Grows recurring cash income by investing in a pool of granular and diversified upper middle market first lien loans
 - Allows an appropriate 2:1 leverage given the asset class
 - Cultivates relationships with financial institutions within the I-45 credit facility
- Pursue an SBIC License and participation in the SBA Debenture Program to further capitalize our lower middle market investment strategy

Two Pronged Investment Strategy

Lower Middle Market (“LMM”): 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 MM with hold sizes generally ranging from \$5 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 (“UMM”): Syndicated or Club First and Second Lien

- 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 generally ranging from \$5 to \$10 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

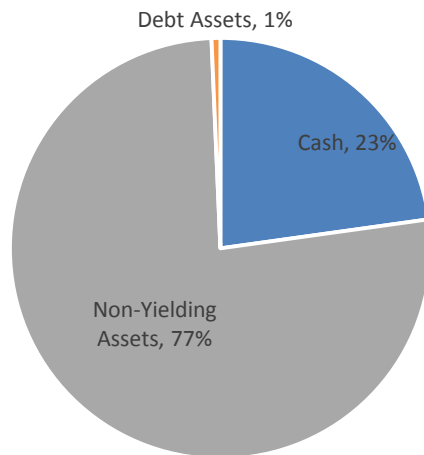
Portfolio Rotation Focused on Credit

Since June 2014, CSWC has transformed its investment portfolio increasing income earning assets from 1% of the investable portfolio to 84%

- Exited 22 legacy portfolio equity investments, generating \$230 MM in proceeds
- Invested \$179 MM in 30 middle-market credit investments on balance sheet
- Invested \$230 MM in 50 credits within I-45 Senior Loan Fund (“I-45”)

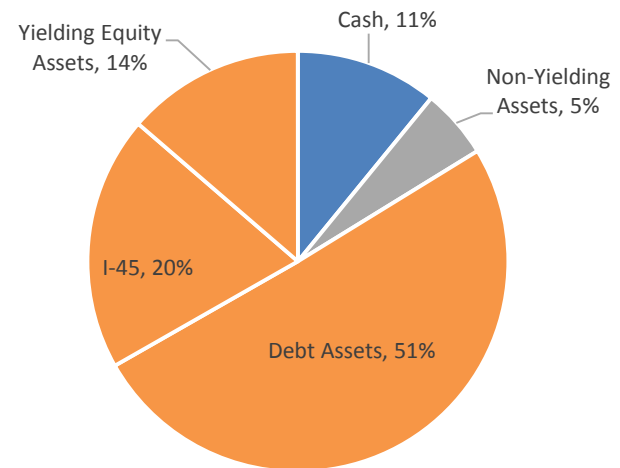
6/30/2014 (excl. CSWI Companies)

1% of Total Assets Generating Recurring Income



12/31/2016 Investable Assets

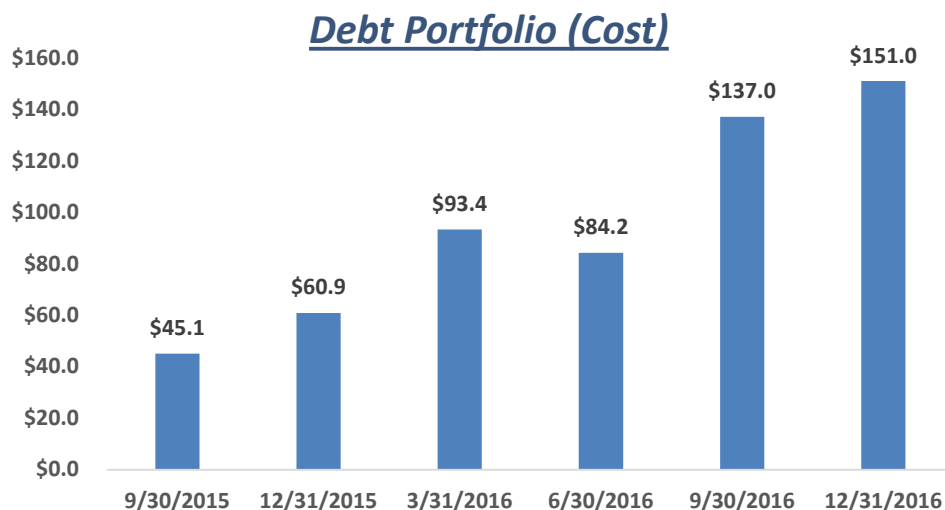
84% of Total Assets Generating Recurring Income



Balance Sheet Credit Portfolio Growth

On Balance Sheet credit portfolio has grown to \$151 MM at 12/31/16 from \$45 MM at 9/30/15

(In Millions)	12/31/2015	3/31/2016	6/30/2016	9/30/2016	12/31/2016
Debt Investments at Cost					
Beginning Total Debt Portfolio (Cost)	\$45.1	\$60.9	\$93.4	\$84.2	\$137.0
New Originations	\$17.9	\$32.9	\$1.7	\$53.7	\$24.4
Repayments & Exits	(\$2.1)	(\$0.6)	(\$10.9)	(\$1.0)	(\$10.6)
OID	\$0.0	\$0.1	\$0.1	\$0.1	\$0.1
Change in Debt Investments (Cost)	\$15.8	\$32.5	(\$9.2)	\$52.8	\$13.9
Ending Total Debt Portfolio (Cost)	\$60.9	\$93.4	\$84.2	\$137.0	\$151.0



Portfolio Exits Since Launch of Credit Strategy

\$33 MM in Credit Portfolio exits generated 32% weighted average IRR

Portfolio Exits							
Name	Industry	Type	Market	Date of Exit	Proceeds	Realized Gain	IRR
Freedom Truck	Finance	Last Out Unitranche	LMM	April 2016	\$5,998	\$0	14.2%
Bob's Discount Furniture	Retail	2nd Lien	UMM	June 2016	\$5,000	\$191	15.1%
Vivid Seats	Hotel, Gaming & Leisure	1st Lien	UMM	October 2016	\$6,913	\$446	21.5%
Hygea (1)	Healthcare & Pharmaceuticals	1st Lien w/ Warrants	LMM	January 2017	\$10,804	\$2,866	56.2%
Polycom (1)	Telecommunications	1st Lien	UMM	January 2017	\$4,305	\$74	32.2%
Total / Wtd. Avg.					\$33,019	\$3,577	31.9%

¹Exits occurring after 12/31/16; Estimated realized gain and IRR

Note: Market Segment refers to Upper Middle Market ("UMM") and Lower Middle Market ("LMM")

Q3 2017 Portfolio Originations

Solid portfolio growth with \$25 MM in new investments originated in Q3 2017 at a weighted average YTM of 10.3%

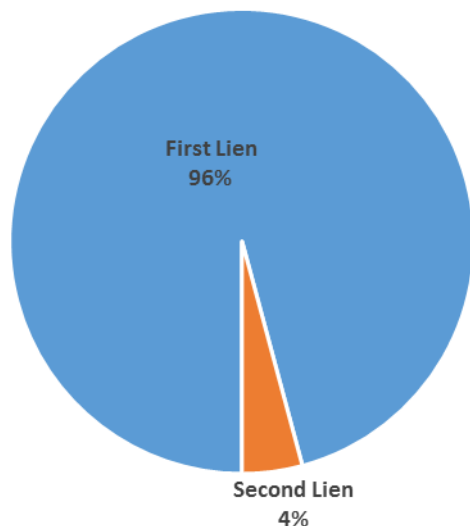
Q3 2017 Portfolio Originations						
Name	Industry	Type	Market Segment	Par Value	Coupon	Yield to Maturity
Lighting Retrofit International	Environmental Services	1st Lien	LMM	\$8,000	L + 9.75% (0.5% floor)	10.5%
American Teleconferencing	Telecommunications	2nd Lien	UMM	\$2,006	L + 9.50% (1.0% floor)	11.5%
Polycom	Telecommunications	1st Lien	UMM	\$4,500	L + 6.50% (1.0% floor)	7.8%
Digital Room	Paper and Forest Products	2nd Lien	UMM	\$7,000	L + 10.0% (1.0% floor)	11.4%
Restaurant Technologies	Restaurants	2nd Lien	UMM	\$3,500	L + 8.75% (1.0% floor)	10.1%
Total				\$25,006		10.3%

Note: Market Segment refers to Upper Middle Market ("UMM") and Lower Middle Market ("LMM")

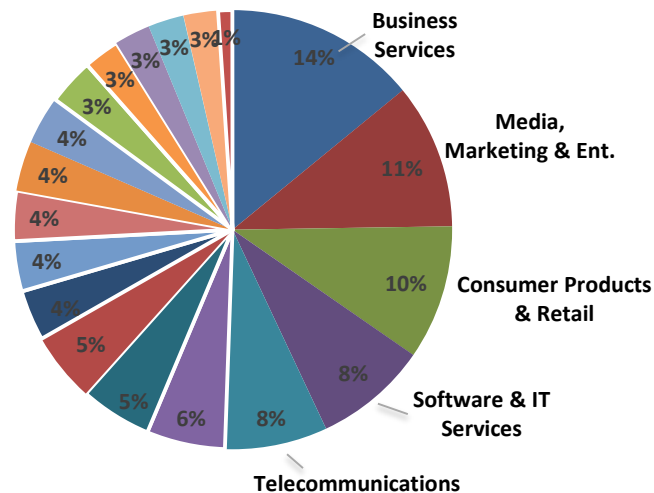
I-45 Portfolio Growth

I-45 portfolio assets grew to \$187 MM

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



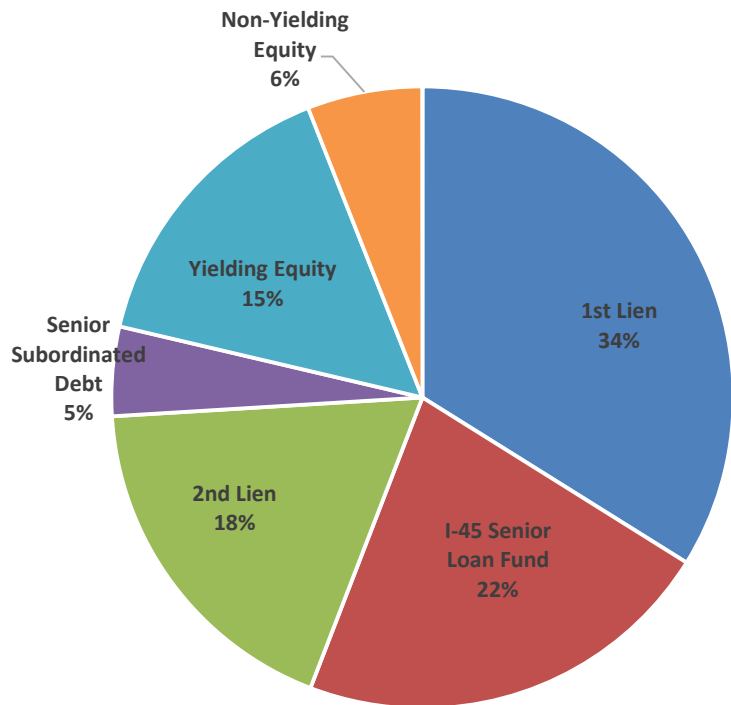
I-45 Portfolio Statistics				
	<u>3/31/2016</u>	<u>6/30/2016</u>	<u>9/30/2016</u>	<u>12/31/2016</u>
Total Debt Investments at Fair Value	\$99,214	\$134,470	\$172,519	\$186,643
Number of Issuers	24	31	36	41
Wtd. Avg. Issuer EBITDA	\$81,564	\$83,004	\$100,144	\$88,970
Avg. Investment Size as a % of Portfolio	4.17%	3.23%	2.78%	2.44%
Wtd. Avg. Leverage on Investments (1)	3.3x	3.7x	3.6x	3.5x
Wtd. Avg. Yield to Maturity	7.85%	8.36%	8.36%	8.21%
Wtd. Avg. Duration (Yrs)	4.2	4.2	4.4	4.4

¹ Through I-45 Security

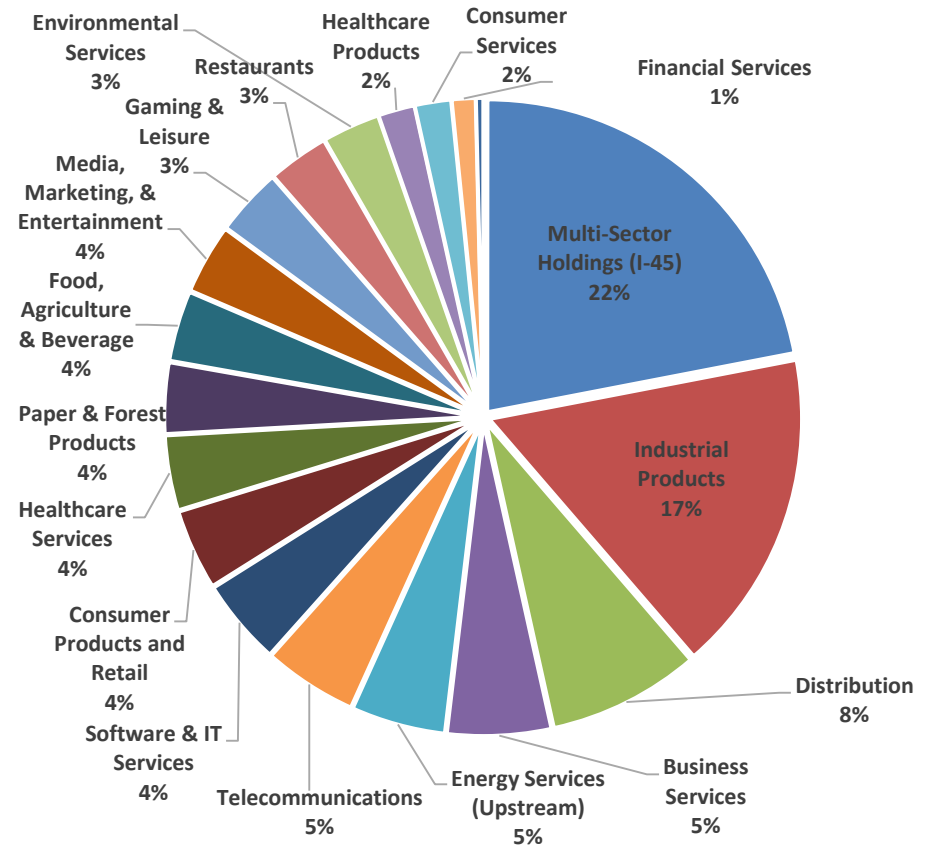
Portfolio Mix as of 12/31/2016 at Fair Value

Current Portfolio of \$267 MM continues to be granular, diverse, and focused on income generating securities

Current Investment Portfolio (By Type)

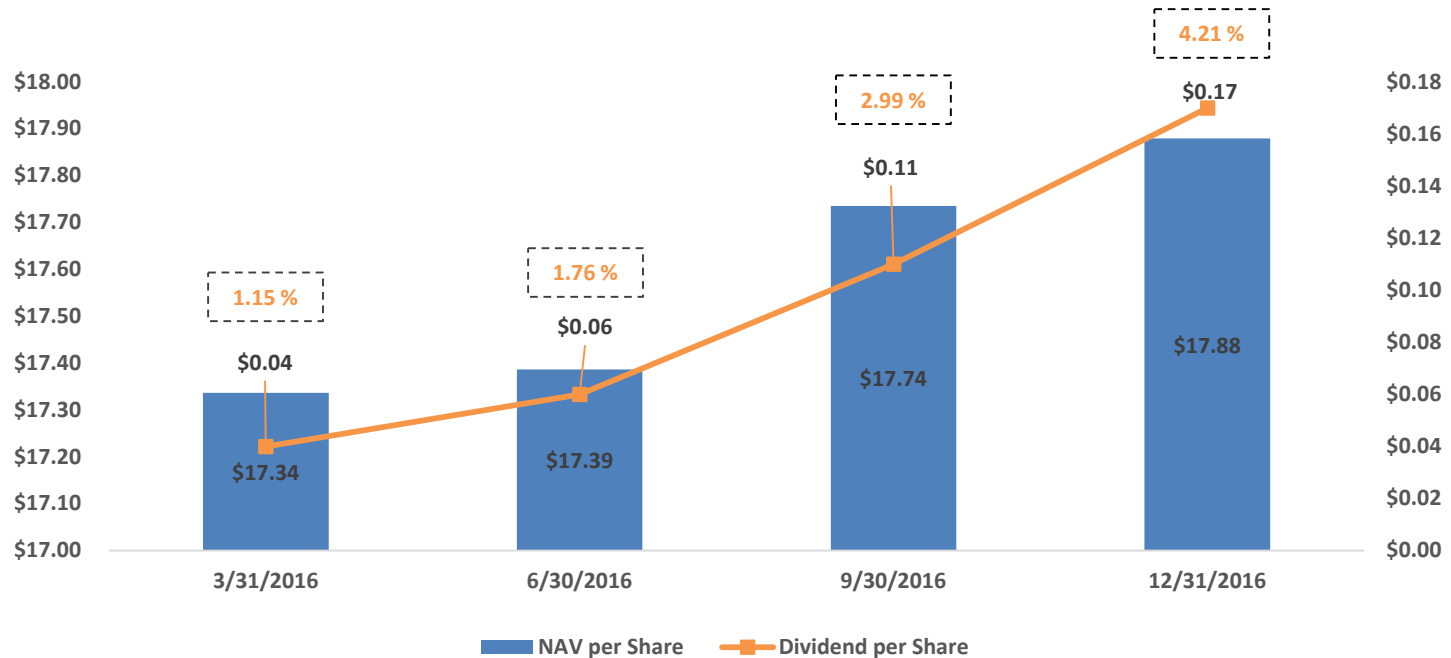


Current Investment Portfolio (By Industry)



Generating Consistent Dividend and NAV Growth

- Over the past four quarters, CSWC has generated \$0.42 per share in Pre-Tax Net Investment Income and paid out \$0.38 per share in Dividends
- Dividend Yield has increased to 4.21% at 12/31/16 from 1.15% at 3/31/16
- NAV has increased to \$17.88 per share at 12/31/16 from \$17.34 per share at 3/31/16



Dividend Yield – Annualized Quarterly Dividend / CSWC Share Price at Qtr. End

Q3 2017 Highlights

Financial Highlights

- Q3 2017 Pre-Tax Net Investment Income of \$3.4 MM or \$0.21 per weighted average diluted share
- Paid quarterly dividend in January of \$0.17 per share
- Increased Investment Portfolio to \$267 MM from \$238 MM
 - \$25 MM deployed in five new originations
 - \$7 MM proceeds received in one prepayment
 - \$8 MM additional equity funded to I-45
- Increased I-45 Senior Loan Fund investment portfolio to \$187 MM from \$173 MM
 - I-45 distributed \$2.4 MM dividend to CSWC, including \$0.8 MM in gains from prepayments
 - \$39 MM deployed in nine new originations
 - \$18 MM proceeds received in four prepayments
- \$32.7 MM in cash available for investment activity as of quarter end
- \$85 MM available to draw on Credit Facility as of quarter end

Portfolio Statistics

Continuing to build a performing credit portfolio

	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/2016	Quarter Ended 12/31/2016
Portfolio Statistics				
Fair Value of Debt Investments	\$92,832	\$83,730	\$137,586	\$151,465
Average Debt Investment Hold Size	\$5,157	\$4,925	\$5,982	\$5,826
Fair Value of Debt Investments as a % of Cost	99%	99%	100%	100%
% of Debt Portfolio on Non-Accrual (at Fair Value) ¹	0.0%	0.0%	1.8%	0.0%
Weighted Average Investment Rating ²	2.0	1.9	1.9	1.9
Weighted Average Yield on Debt Investments	10.67%	10.08%	10.00%	10.32%
Total Fair Value of Portfolio Investments	\$178,436	\$175,915	\$238,319	\$267,131
Weighted Average Yield on all Portfolio Investments	9.46%	9.35%	9.13%	10.78%
Investment Mix (Debt vs. Equity) ³	65% / 35%	62% / 38%	73% / 27%	73% / 27%
Investment Mix (Yielding vs. Non-Yielding)	90% / 10%	90% / 10%	94% / 6%	94% / 6%

¹ CSWC's \$2.7 MM sub debt investment (legacy 2012 funding) in Titan Liner has been restructured, with CSWC taking a controlling position in the company.

² 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.

³ Excludes CSWC equity investment in I-45 Senior Loan Fund.

Financial Highlights

	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/2016	Quarter Ended 12/31/2016
Financial Highlights				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.04	\$0.06	\$0.11	\$0.21
Pre-Tax Net Investment Income Return on Equity (ROE)	1.03%	1.34%	2.54%	4.79%
Dividends Per Share	\$0.04	\$0.06	\$0.11	\$0.17
Earnings Per Wtd Avg Diluted Share	\$0.16	\$0.17	\$0.44	\$0.49
Earnings Return on Equity (ROE)	3.67%	3.93%	9.87%	11.07%
NAV Per Share	\$17.34	\$17.39	\$17.74	\$17.88
Cash & Cash Equivalents	\$95,969	\$96,957	\$57,840	\$32,671
Debt to Equity	0.0x	0.0x	0.0x	0.1x

Balance Sheet Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/2016	Quarter Ended 12/31/2016
Assets				
Portfolio Investments	\$178,436	\$175,915	\$238,319	\$267,131
Cash & Cash Equivalents	\$95,969	\$96,957	\$57,840	\$32,671
Deferred Tax Asset	\$2,342	\$1,874	\$1,940	\$1,940
Other Assets	\$7,746	\$6,110	\$9,176	\$10,592
Total Assets	\$284,493	\$280,856	\$307,275	\$312,334
Liabilities				
Credit Facility	\$0	\$0	\$0	\$15,000
Payable for Unsettled Transaction	\$3,940	\$0	\$19,361	\$0
Other Liabilities	\$7,918	\$7,572	\$8,985	\$11,890
Total Liabilities	\$11,858	\$7,572	\$28,346	\$26,890
Shareholders Equity				
Net Asset Value	\$272,635	\$273,284	\$278,929	\$285,444
NAV per Share	\$17.34	\$17.39	\$17.74	\$17.88
Debt to Equity	0.0x	0.0x	0.0x	0.1x
Shares Outstanding at Period End	15,726	15,718	15,727	15,965

Income Statement Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 3/31/16	Quarter Ended 6/30/16	Quarter Ended 9/30/16	Quarter Ended 12/31/16
Investment Income				
Interest Income	\$2,110	\$2,292	\$2,630	\$3,611
Dividend Income	\$1,578	\$1,769	\$1,995	\$3,078
Fees and Other Income	\$123	\$96	\$101	\$176
Total Investment Income	\$3,811	\$4,157	\$4,726	\$6,865
Expenses				
Cash Compensation	\$1,403	\$1,484	\$1,404	\$1,476
Share Based Compensation	\$257	\$239	\$255	\$321
General & Administrative	\$1,192	\$1,344	\$1,015	\$1,144
Spin-off Related Expenses	\$251	\$172	\$172	\$172
Total Expenses (excluding Interest)	\$3,103	\$3,239	\$2,846	\$3,113
Interest Expense	\$0	\$0	\$103	\$343
Pre-Tax Net Investment Income	\$708	\$918	\$1,777	\$3,409
Taxes and Gain / (Loss)				
Income Tax Benefit (Expense)	\$788	(\$547)	(\$412)	(\$536)
Net realized gain (loss) on investments	\$12	\$199	\$3,527	\$72
Net increase (decrease) in unrealized appreciation of investments	\$1,001	\$2,127	\$2,026	\$4,940
Net increase (decrease) in net assets resulting from operations	\$2,509	\$2,697	\$6,918	\$7,885
Weighted Average Shares Outstanding	15,795	15,791	15,806	15,932
Pre-Tax Net Investment Income Per Weighted Average Share	\$0.04	\$0.06	\$0.11	\$0.21
Dividends Per Share	\$0.04	\$0.06	\$0.11	\$0.17

Investment Income Detail

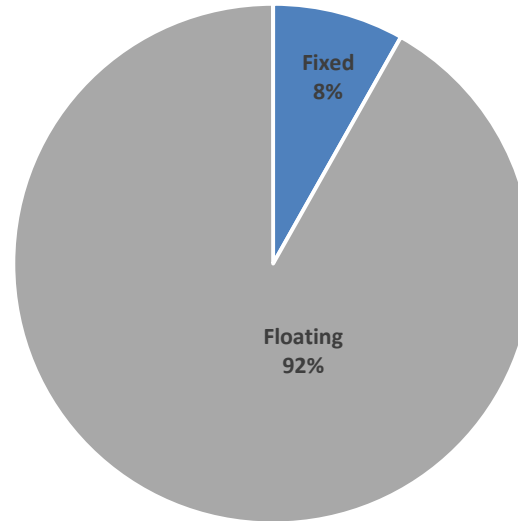
Constructing a portfolio of investments with recurring cash yield

<i>(In Thousands)</i>	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/16	Quarter Ended 12/31/16
Investment Income Breakdown				
Cash Interest	\$2,063	\$2,216	\$2,535	\$3,490
Cash Dividends	\$1,578	\$1,769	\$1,995	\$3,078
Management/Admin Fees	\$115	\$95	\$95	\$105
Amortization of purchase discounts and fees	\$47	\$76	\$100	\$120
Other Income & Fees (non-recurring)	\$8	\$1	\$1	\$73
Total Investment Income	\$3,811	\$4,157	\$4,726	\$6,865
Key Metrics				
Cash Income as a % of Investment Income	98.8%	98.2%	97.9%	98.3%
% of Total Investment Income that is Recurring	99.8%	100.0%	100.0%	98.8%

Interest Rate Sensitivity

Debt Portfolio Well-Positioned for Changes to Base Interest Rates

Yielding Debt Portfolio Composition



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
(50bps)	\$466,196	\$0.03
50 bps	\$831,955	\$0.05
100bps	\$1,767,014	\$0.11
150bps	\$2,702,351	\$0.17
200bps	\$3,637,688	\$0.23

Note: Illustrative change in NII is based on a projection of our existing debt investments as of 12/31/16, 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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Senior Management

Bowen S. Diehl
President & Chief Executive Officer

Michael S. Sarnier
Chief Financial Officer, Secretary & Treasurer

Investor Relations

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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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