



*Capital Southwest Corporation*

## *Q3 2016 Earnings Presentation*

February 8, 2016

# Forward-Looking Statements

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- This presentation contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 relating to, among other things the business, financial condition and results of operations of Capital Southwest, the anticipated investment strategies and investments of Capital Southwest, and future market demand. Any statements preceded or followed by or that include the words "believe," "expect," "intend," "plan," "should" or similar words, phrases or expressions or the negative thereof, or any other statements that are not historical statements are forward-looking statements. These statements are made on the basis of the current beliefs, expectations and assumptions of the management of Capital Southwest. There are a number of risks and uncertainties that could cause Capital Southwest's actual results to differ materially from the forward-looking statements included in this presentation.
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# *Conference Call Participants*

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***Bowen S. Diehl***

***Chief Executive Officer and President***

***Michael S. Sarnier***

***Chief Financial Officer***

***Douglas M. Kelley***

***Managing Director***

***Chris Rehberger***

***VP Finance***

# CSWC Company Overview

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*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
- Management transition over the last two years has resulted in a new Chairman, CEO, CFO, and credit team
- In December 2014, announced split into two separate companies with spin-off of industrial growth company (“CSW Industrials”; Nasdaq: CSWI) which was completed September 30<sup>th</sup>, 2015
- Over the past 18 months, CSWC has made significant strides towards rotating its investment portfolio from equity to credit

# Asset Allocation & Investment Strategy

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## *Investment strategy designed with the end game in mind....*

- Build a BDC portfolio that pays shareholders attractive sustainable dividends, funded from investment income
- Achieve granularity and diversity across asset classes
- Establish balance between liquid and illiquid asset classes
- Maintain capital preservation as first priority
- Demonstrate consistent NAV per share growth
- Match of fixed/floating rates with financing sources

# Investment Focus

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## Support the acquisition and growth of companies in the Lower Middle Market

- Companies range from \$3 to \$20 million in EBITDA
- Target leverage of 2x – 4x Debt to EBITDA
- Commitment size up to \$20 million with hold sizes of \$5 MM to \$15 MM
- Originate both Sponsored and Non-sponsored debt investments across the capital structure, including first lien, unitranche, second lien and subordinated debt
- Non-control equity co-investments alongside debt investments

## Participate in First and Second Lien debt investments in the Upper Middle Market

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

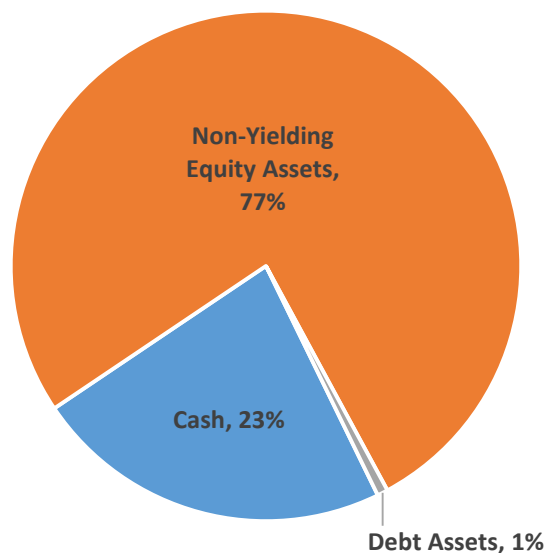
# Maintaining Strict Investment Criteria

<b>Experienced Management Team with Meaningful Equity Ownership</b>	<ul style="list-style-type: none"><li>• Relevant experience and track record of success</li><li>• Significant economic interest in the future success of the company</li></ul>
<b>Sustainable Business Model</b>	<ul style="list-style-type: none"><li>• Differentiated product and/or service that gives company a sustainable reason to exist</li><li>• Consistent cash flow with ability to maintain margins</li></ul>
<b>Strong Competitive Position</b>	<ul style="list-style-type: none"><li>• Market leader in its business segments</li><li>• Quantifiable competitive advantage versus their competitors with barriers to entry</li></ul>
<b>Diversification of Customers and Suppliers</b>	<ul style="list-style-type: none"><li>• Inability for any one customer to significantly affect the company's financial performance and ability to service debt</li><li>• Sustainability of supply and cost of inputs</li></ul>
<b>Ability of Capital Structure to Sustain Economic Cycles</b>	<ul style="list-style-type: none"><li>• Capital structure appropriate for business model and industry</li><li>• Downside scenario modeling proves ability to sustain economic cycles while servicing debt with leverage inside enterprise value</li></ul>
<b>Significant Equity Value Supporting Debt</b>	<ul style="list-style-type: none"><li>• Underlying equity value sufficient to support debt in case of idiosyncratic business risks or economic cycles</li></ul>

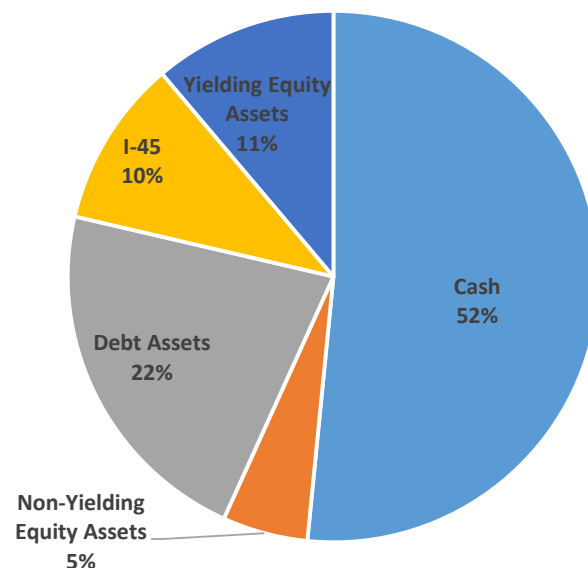
# Portfolio Rotation Focused on Credit

- Since June 2014, CSWC has made significant strides towards rotating its investment assets from equity to credit
  - Exited 21 portfolio companies for \$222 MM in proceeds
  - Invested \$61 MM in 12 middle-market credit investments
  - Invested \$84 MM in 19 credits within I-45 Senior Loan Fund (“I-45”), a joint venture with Main Street Capital
- Below is a depiction of the asset rotation of the CSWC portfolio, excluding the businesses that were spun-off as CSW Industrials

**6/30/2014 (excl. CSWI Companies)**



**12/31/2015 Investable Assets**





# Q3 2016 and Post-Quarter End Originations

*In Thousands*

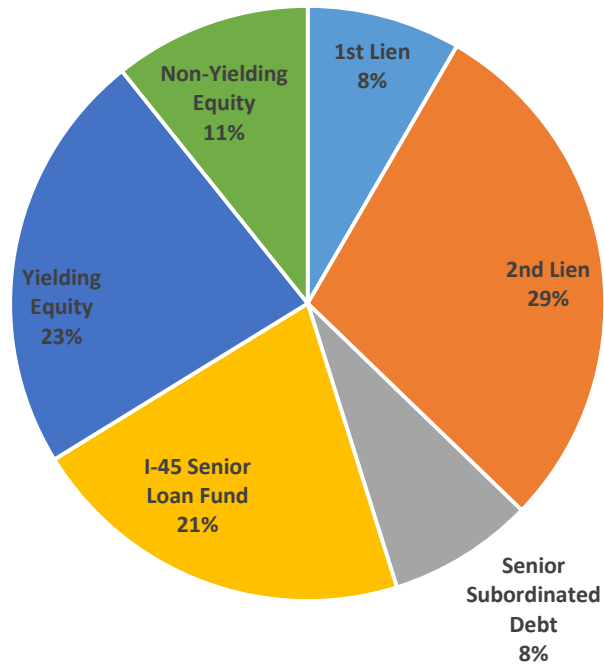
Q3 2016 Portfolio Originations						
Name	Industry	Type	Market Segment	Par Value	Yield	
Three Sixty Group	Consumer Products & Retail	1st Lien	Upper Middle Market	\$7,000	L + 9.0% (1% Floor)	
Argon Medical Devices	Healthcare Products	2nd Lien	Upper Middle Market	\$5,000	L + 9.5% (1% Floor)	
Water PIK	Consumer Products & Retail	2nd Lien	Upper Middle Market	\$4,781	L + 8.75% (1% Floor)	
Prepaid Legal Services	Consumer Services	2nd Lien	Upper Middle Market	\$1,750	L + 9.0% (1.25% Floor)	
<b>Total</b>				<b>\$18,531</b>		

Portfolio Originations - Since Quarter End						
Name	Industry	Type	Market Segment	Par Value	Yield	
Chandler Signs	Services: Business	Secured Subordinated Debt	Lower Middle Market	\$4,500	12% Fixed	
Chandler Signs	Services: Business	Equity	Lower Middle Market	\$1,500	N/A	
Tax Act / HD Vest	Financial Services	1st Lien	Upper Middle Market	\$5,000	L + 6.0% (1% Floor)	
Digital River	Software & IT Services	1st Lien	Upper Middle Market	\$4,632	L + 6.0% (1% Floor)	
<b>Total</b>				<b>\$15,632</b>		

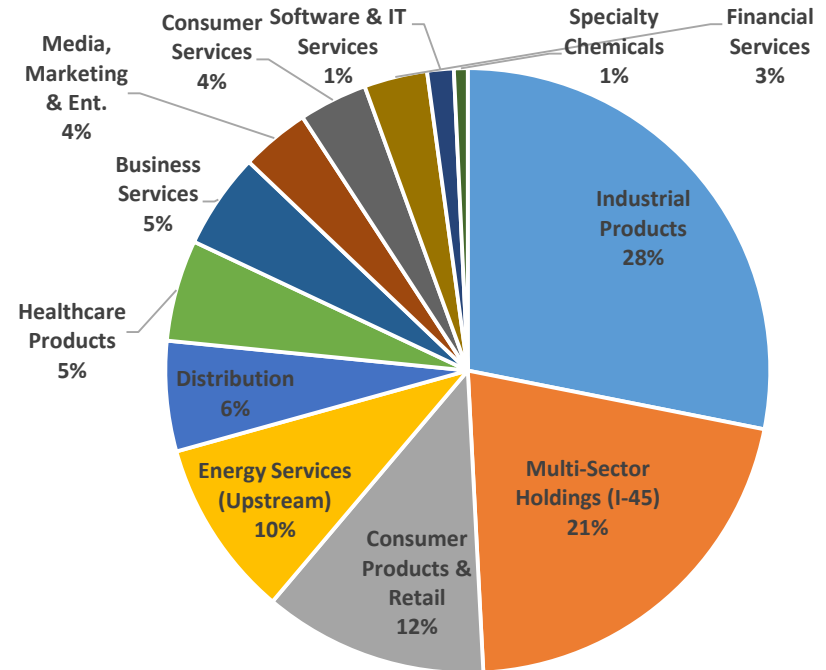
# Portfolio Mix as of 12/31/15 at Fair Value

Continuing to build a diverse investment portfolio

By Investment Type



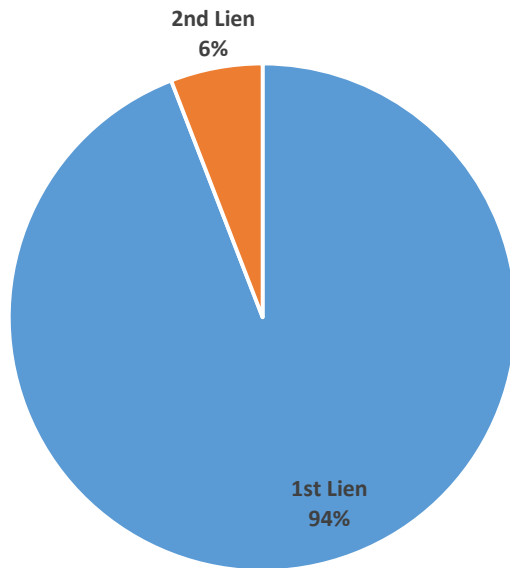
By Industry



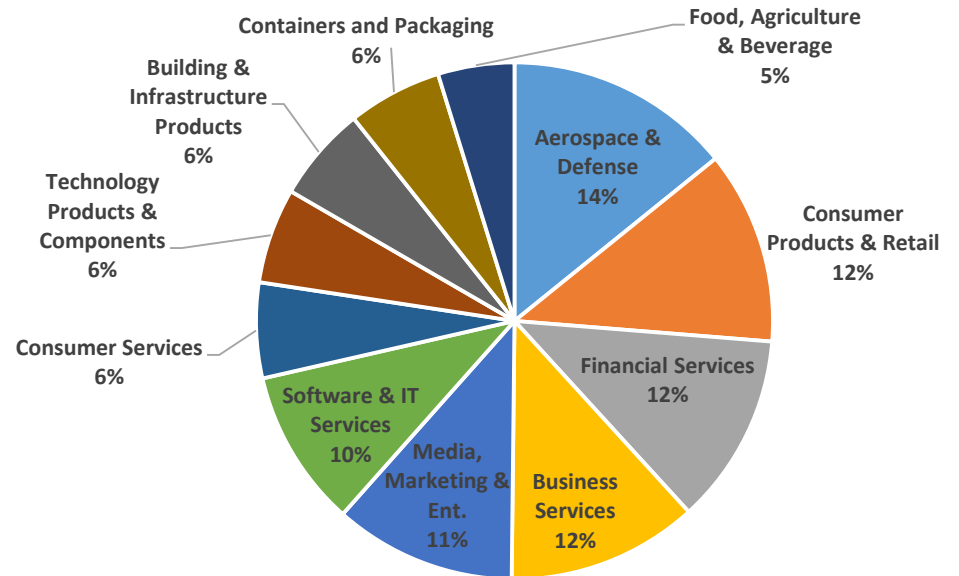
# I-45 Senior Loan Fund Portfolio Detail

Invested \$28.8 MM of our \$68 MM commitment in I-45 SLF

By Investment Type



By Industry



I-45 Portfolio Statistics	
Total Principal Outstanding	\$83,864
Number of Issuers	19
Avg. Investment Size as a % of Portfolio	5.26%
Wtd. Avg. Leverage of Investments	3.3x
Wtd. Avg. Yield to Maturity	7.59%
Wtd. Avg. Duration (Years)	4.5

# Q3 2016 Highlights

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## Financial Highlights

- Q3 2016 Net Investment Loss of (\$20 K) or (\$0.00) per weighted average share
  - Net Investment Income of \$0.7 MM or \$.04 per weighted average share excluding spin-off related expenses
- Grew investment portfolio to \$135 MM from \$93 MM
- Positive cash flow from operations excluding spin-off expenses
- No non-accruals or watch list companies within debt investment portfolio
- \$144 MM in cash available for investment activity

## Key Updates

- Implemented \$10 MM Share Repurchase Plan
- Ramp of I-45 Senior Loan Fund ahead of plan due to opportunistic secondary purchases during the quarter
  - \$88 MM total assets, predominantly in first lien investments
  - Raised \$75 MM on Deutsche Bank Credit Facility (accordion up to 2x debt to equity)
  - I-45 produced a dividend to CSWC of \$265 K in first quarter of operations

# Key Highlights

	Quarter Ended 9/30/2015	Quarter Ended 12/31/2015
<b>Financial Highlights</b>		
Net Investment Loss Per Share	(\$0.60)	(\$0.00)
NAV Per Share <sup>1</sup>	\$17.68	\$17.22
Cash & Cash Equivalents	\$184,111	\$143,680
Debt to Equity	0.0x	0.0x
Shares Outstanding	15,583	15,725
Weighted Average Shares Outstanding (Diluted)	15,680	15,751
<b>Portfolio Statistics</b>		
Fair Value of Debt Investments	\$45,115	\$60,929
Average Debt Investment Hold Size	\$5,013	\$5,077
Fair Value of Debt Investments as a % of Cost	100%	100%
% of Debt Portfolio on Non-Accrual (at Fair Value)	0.3%	0.0%
Weighted Average Investment Rating <sup>2</sup>	N/A	2.0
Weighted Average Yield on Debt Investments	10.11%	10.31%
Total Fair Value of Investments	\$93,339	\$134,935
Weighted Average Yield on all Investments	4.83%	11.28%
Investment Mix (Debt vs. Equity) <sup>3</sup>	47% / 53%	57% / 43%
Investment Mix (Yielding vs. Non-Yielding)	80% / 20%	89% / 11%

<sup>1</sup> NAV reduction attributed to \$2.9 MM tax payment on behalf of shareholders and \$1.1 MM of net portfolio depreciation.

<sup>2</sup> 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.

<sup>3</sup> Excludes CSWC equity investment in I-45 Senior Loan Fund

# Balance Sheet Highlights

<i>(In Thousands, except per share amounts)</i>	<b>Quarter Ended 9/30/2015</b>	<b>Quarter Ended 12/31/2015</b>
<b>Assets</b>		
Portfolio Investments	\$93,339	\$134,935
Cash & Cash Equivalents	\$184,111	\$143,680
Other Assets	\$8,200	\$7,965
<b>Total Assets</b>	<b>\$285,650</b>	<b>\$286,580</b>
<b>Liabilities</b>		
Payable for Unsettled Transaction	\$0	\$4,850
Income Tax Payable	\$0	\$2,948
Other Liabilities	\$10,059	\$7,997
<b>Total Liabilities</b>	<b>\$10,059</b>	<b>\$15,795</b>
<b>Shareholders Equity</b>		
<b>Net Asset Value</b>	<b>\$275,591</b>	<b>\$270,785</b>
Shares Outstanding at Period End	15,583	15,725
NAV per Share	\$17.68	\$17.22
Debt to Equity	0.0x	0.0x

# Income Statement Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/2015	Quarter Ended 12/31/2015
<b>Investment Income</b>		
Interest Income	\$945	\$1,415
Dividend Income	\$0	\$1,612
Fees and Other Income	\$133	\$280
<b>Total Investment Income</b>	<b>\$1,078</b>	<b>\$3,307</b>
<b>Expenses</b>		
Cash Compensation	\$3,411	\$1,675
Share Based Compensation	\$370	\$195
General & Administrative	\$1,070	\$1,354
Spin-off Related Expenses	\$5,474	\$710
<b>Total Expenses</b>	<b>\$10,325</b>	<b>\$3,934</b>
Income Tax Benefit (Expense)	(\$88)	\$607
<b>Net Investment Loss</b>	<b>(\$9,335)</b>	<b>(\$20)</b>
<b>Gain / (Loss)</b>		
Net realized gain (losses) on investments	(\$3,396)	(\$8,170)
Net increase (decrease) in unrealized appreciation of investments	\$3,783	\$7,060
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>(\$8,948)</b>	<b>(\$1,130)</b>
Weighted Average Shares Outstanding	15,680	15,751
<b>Net Investment Income Per Weighted Average Share</b>	<b>(\$0.60)</b>	<b>(\$0.00)</b>

# Investment Income Detail

*Constructing a portfolio of investments with recurring cash yield*

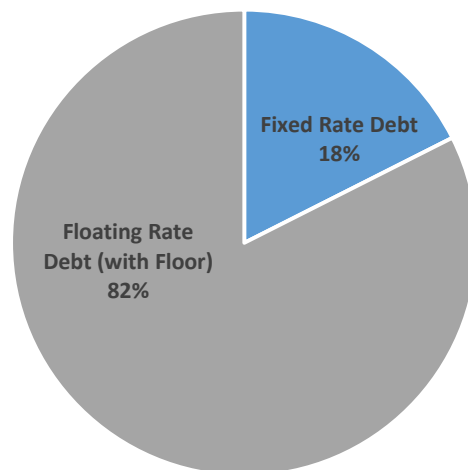
<i>(In Thousands)</i>	Quarter Ended 9/30/2015	Quarter Ended 12/31/2015
<b>Investment Income Breakdown</b>		
Cash Interest	\$930	\$1,392
Amortization of purchase discounts and fees	\$15	\$23
Cash Dividends	\$0	\$1,612
Management Fees	\$133	\$275
Other Income (non-recurring)	\$0	\$5
<b>Total Investment Income</b>	<b>\$1,078</b>	<b>\$3,307</b>
<b>Key Metrics</b>		
Cash Income as a % of Investment Income	98.6%	99.3%
% of Total Investment Income that is Recurring	100.0%	99.8%



# 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	(\$34,814)	(\$0.00)
100bps	\$333,308	\$0.02
150bps	\$732,988	\$0.05
200bps	\$1,132,667	\$0.07

Note: Illustrative change in NII is based on a projection of our existing debt investments as of 12/31/15, adjusted only for changes in Base Rates. The I-45 Senior Loan Fund 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

5400 LBJ Freeway  
13th Floor  
Dallas, TX 75240

<http://www.capitalsouthwest.com>

## Senior Management

Bowen S. Diehl  
*President & Chief Executive Officer*

Michael S. Sarnier  
*Chief Financial Officer, Secretary & Treasurer*

## Investor Relations

Michael S. Sarnier  
Capital Southwest  
214-884-3829

[msarnier@capitalsouthwest.com](mailto:msarnier@capitalsouthwest.com)

## 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  
[www.amstock.com](http://www.amstock.com)