



*Capital Southwest Corporation*

## *Q1 2019 Earnings Presentation*

August 7, 2018

# Forward-Looking Statements

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- This presentation contains forward-looking statements relating to, among other things, the business, market conditions, financial condition and results of operations of Capital Southwest, the anticipated investment strategies and investments of Capital Southwest, and future market demand. Any statements that are not statements of historical fact are forward-looking statements. Forward-looking statements are often, but not always, preceded by, followed by, or include words such as "believe," "expect," "intend," "plan," "should" or similar words, phrases or expressions or the negative thereof. These statements are made on the basis of the current beliefs, expectations and assumptions of the management of Capital Southwest and speak only as of the date of this presentation. 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.
- For a further discussion of some of the risks and uncertainties applicable to Capital Southwest and its business, see Capital Southwest's Annual Report on Form 10-K for the fiscal year ended March 31, 2018 and its subsequent filings with the Securities and Exchange Commission. Other unknown or unpredictable factors could also have a material adverse effect on Capital Southwest's actual future results, performance, or financial condition. As a result of the foregoing, readers are cautioned not to place undue reliance on these forward-looking statements. Capital Southwest does not assume any obligation to revise or to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, or otherwise, except as may be required by law.

# *Conference Call Participants*

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***Bowen S. Diehl***

***President and Chief Executive Officer***

***Michael S. Sarner***

***Chief Financial Officer***

***Chris Rehberger***

***VP Finance / Treasurer***

# CSWC Company Overview

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*CSWC is a middle-market lending firm focused on supporting the acquisition and growth of middle-market companies across the capital structure*

- CSWC was formed in 1961, and elected to be regulated as a BDC in 1988
- Publicly-traded on Nasdaq: Common Stock (“CSWC”) and December 2022 Notes (“CSWCL”)
- Internally Managed BDC with RIC tax treatment for tax purposes
- December 2014 announced intent to spin-off of industrial growth company (“CSW Industrials”; Nasdaq: CSWI) tax free
- January 2015 launched credit investment strategy
- September 2015 completed tax free spin off of CSWI
- 20 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$451 MM as of June 30, 2018
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (Nasdaq: “MAIN”)

# Q1 2019 Highlights

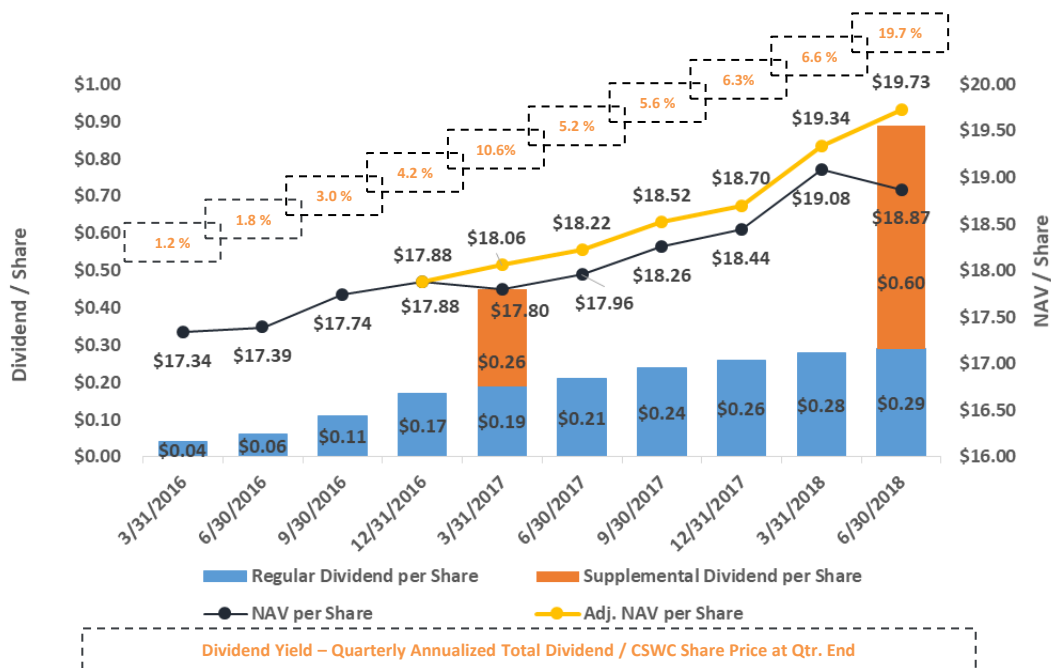
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## Financial Highlights

- Q1 2019 Pre-Tax Net Investment Income (“NII”) of \$5.0 MM or \$0.31 per share
- Announced Supplemental Dividend Program
  - ✓ \$0.60 per share Supplemental Dividend paid during the quarter
  - ✓ Expect to pay \$0.10 per share Supplemental Dividend per quarter going forward, subject to approval by the Board of Directors
- Total Annualized Earnings Return on Equity of 15.1% for the quarter
- Investment Portfolio at Fair Value increased to \$411 MM from \$393 MM in prior quarter
  - ✓ \$66.9 MM committed in three new originations and three add-ons
  - ✓ \$39.9MM proceeds received from three portfolio exits
- Received \$2.2 MM dividend from I-45 SLF, an effective yield of 13.1% at fair value
- \$145 MM available on Credit Facility and \$12.5 MM in cash and cash equivalents as of quarter end
- Sold a total of 474,950 of our December 2022 Notes through our At-The-Market (“ATM”) Program from inception in June 2018 through August 3, 2018
  - ✓ Gross proceeds of \$12.0 MM at an effective yield of 5.88%

# Track Record of Dividend and NAV Growth Continues

- In the last twelve months ending 6/30/18, CSWC generated \$1.11 per share in Pre-Tax NII and paid out \$1.07 per share in regular dividends
  - ✓ LTM Regular Dividend coverage of 104% of Pre-Tax NII
  - ✓ Ten consecutive quarters of regular dividend per share growth
- Announced Supplemental Dividend Program in 6/30/18 quarter and paid a Supplemental Dividend of \$0.60 per share, generated primarily from realized gains
  - Expect to pay \$0.10 per share Supplemental Dividend per quarter going forward, subject to Board approval
- Adjusted NAV (excluding Supplemental Dividends) increased to \$19.73 per share at 6/30/18 from \$19.34 per share at 3/31/18



Note: Adjusted NAV per Share calculation adds back all Supplemental Dividends paid

# Two Pronged Investment Strategy

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## **CORE: Lower Middle Market (“LMM”): CSWC led or Club Deals**

- Companies with EBITDA between \$3 MM and \$15 MM
- Typical leverage of 2x – 4x Debt to EBITDA through CSWC debt
- Commitment size up to \$25 MM with hold sizes generally \$10 MM to \$20 MM
- Both Sponsored and Non-sponsored deals
- Securities include first lien, unitranche, second lien and subordinated debt
- Frequently make equity co-investments alongside CSWC debt

## **OPPORTUNISTIC: Upper Middle Market (“UMM”): Syndicated or Club, First and Second Lien**

- Companies typically have in excess of \$50 MM in EBITDA
- Typical leverage of 3x – 5.5x Debt to EBITDA through CSWC debt position
- Hold sizes generally \$5 MM to \$15 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

# Strong Quarter of CSWC Originations

**\$66.9 MM in new committed investments during the quarter (\$53.3 MM funded at close) at a weighted average debt YTM of 11.1%**

Q1 2019 Portfolio Originations									
Name	Industry	Type	Market	Total Debt Funded at Close (in \$000s)	Total Equity Funded at Close (in \$000s)	Unfunded Commitments at Close (in \$000s)	Debt Spread over LIBOR	Debt Yield to Maturity	
Gauge American Nuts <sup>(1)</sup>	Food, Agriculture & Beverage	1st Lien / RLOC / DDTL / Equity	LMM	\$20,656	\$3,000	\$2,969	8.00%	11.3%	
Environmental Pest Service	Consumer Services	1st Lien / DDTL	LMM	\$16,250	\$0	\$7,000	7.25%	10.4%	
Fast Sandwich	Restaurants	1st Lien / RLOC	LMM	\$3,800	\$0	\$3,650	9.00%	12.1%	
Delphi Add-On	Healthcare Services	1st Lien	UMM	\$5,000	\$0	\$0	7.50%	10.5%	
Elite SEM Add-On	Media, Marketing & Entertainment	1st Lien / Equity	LMM	\$2,500	\$111	\$0	8.42%	12.8%	
ITA Term Loan B Add-On	Transportation & Logistics	1st Lien	LMM	\$2,000	\$0	\$0	8.50%	11.6%	
<b>Total</b>				<b>\$50,206</b>	<b>\$3,111</b>	<b>\$13,619</b>		<b>11.1%</b>	

1. Gauge American Nuts amounts include a \$3.5 MM revolving loan, consisting of \$2.5 MM funded at closing and \$1 MM commitment available to company. Subsequent to quarter end, the revolving loan was refinanced by a traditional revolving lender. As of July 31, 2018, CSWC had \$18.1 MM funded on the 1st Lien Term Loan and a delay draw commitment of \$2 MM to fund an earn-out to sellers based on certain EBITDA growth targets.

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



# CSWC Portfolio Prepayments and Exits

*Prepayments and exits continue to demonstrate our track record of generating attractive risk adjusted returns on shareholders' capital*

- During the quarter, we received \$39.9 MM in proceeds from two Lower Middle Market exits and one Upper Middle Market prepayment, generating a weighted average IRR of 23.6%
- Cumulative IRR of 17.2% on 22 portfolio exits generating \$162 MM in proceeds since launch of credit strategy in January 2015

Q1 2019 Portfolio Exits							
Name	Industry	Type	Market	Proceeds (in \$000s)	Realized Gain (in \$000s)	IRR	
TitanLiner	Energy (Upstream)	Equity	LMM	\$24,779	\$18,620	28.9%	
Wastewater Specialties	Industrial Services	1st Lien	LMM	\$10,139	\$138	16.6%	
Pre-Paid Legal Services	Consumer Services	2nd Lien	UMM	\$5,000	\$31	11.6%	
<b>Total / Wtd. Avg.</b>				<b>\$39,918</b>	<b>\$18,789</b>	<b>23.6%</b>	

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

# CSWC Portfolio Asset Mix by Market

*Maintaining appropriate portfolio leverage while receiving attractive risk adjusted returns*

Investment Portfolio - Statistics at 6/30/18		
(In Thousands)	Lower Middle Market <sup>(1)</sup>	Upper Middle Market
Number of Portfolio Companies	19	10
Total Cost	\$227,901	\$73,033
Total Fair Value	\$271,373	\$73,382
Average Hold Size (at Cost)	\$11,995	\$7,303
% First Lien Investments (at Cost)	78.2%	75.2%
% Second Lien Investments (at Cost)	0.0%	24.8%
% Subordinated Debt Investments (at Cost)	8.3%	0.0%
% Equity (at Cost)	13.5%	0.0%
Wtd. Avg. Yield <sup>(2)(3)</sup>	12.0%	10.5%
Wtd. Avg. EBITDA of Issuer (\$MM's) <sup>(3)</sup>	\$8.6	\$81.2
Wtd. Avg. Leverage through CSWC Security <sup>(3)(4)</sup>	3.4x	4.0x

*Note: All metrics above exclude the I-45 Senior Loan Fund*

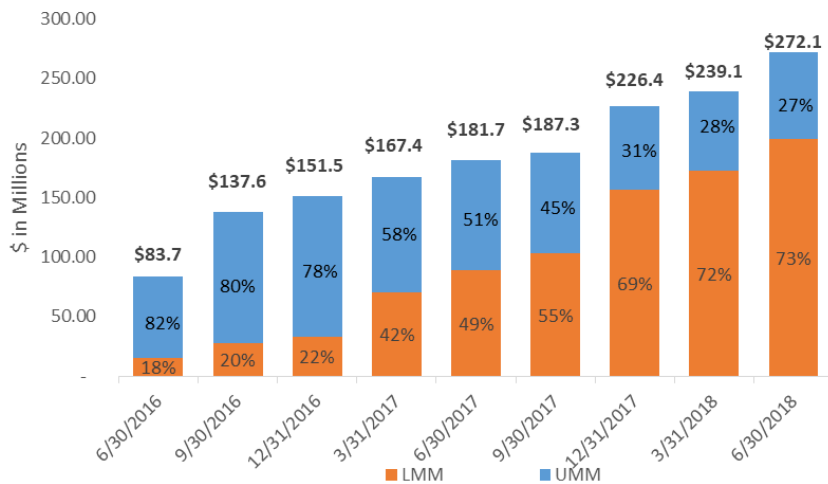
1. *At June 30, 2018, we had equity ownership in approximately 73.7% of our LMM investments*
2. *The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of June 30, 2018, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status. As of June 30, 2018, there were no investments on non-accrual status. Weighted-average annual effective yield is higher than what an investor in shares in our common stock will realize on its investment because it does not reflect our expenses or any sales load paid by an investor.*
3. *Weighted average metrics are calculated using investment cost basis weighting*
4. *Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment*

# Robust Lower Middle Market First Lien Credit Portfolio

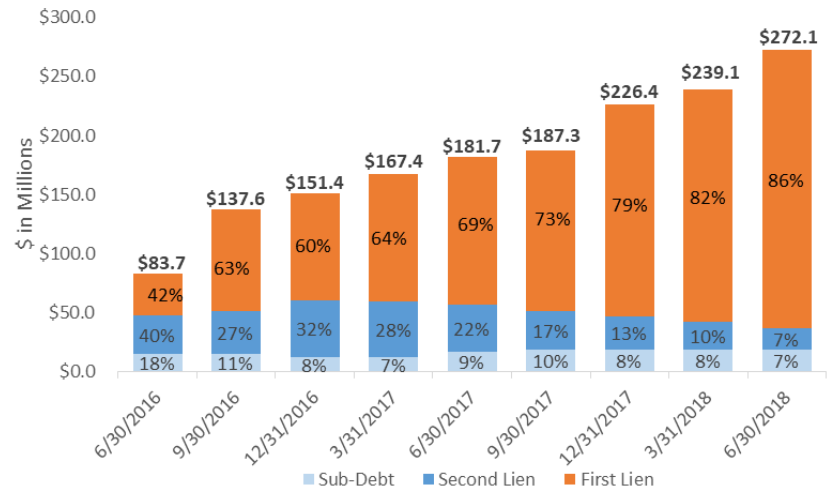
## CSWC Credit Portfolio continues to migrate to LMM and First Lien Investments

- LMM Investments have increased to 73% of the credit portfolio at 6/30/18 from 18% at 6/30/16
- First Lien Investments have increased to 86% of the credit portfolio at 6/30/18 from 42% at 6/30/16

### Robust LMM Credit Portfolio Growth



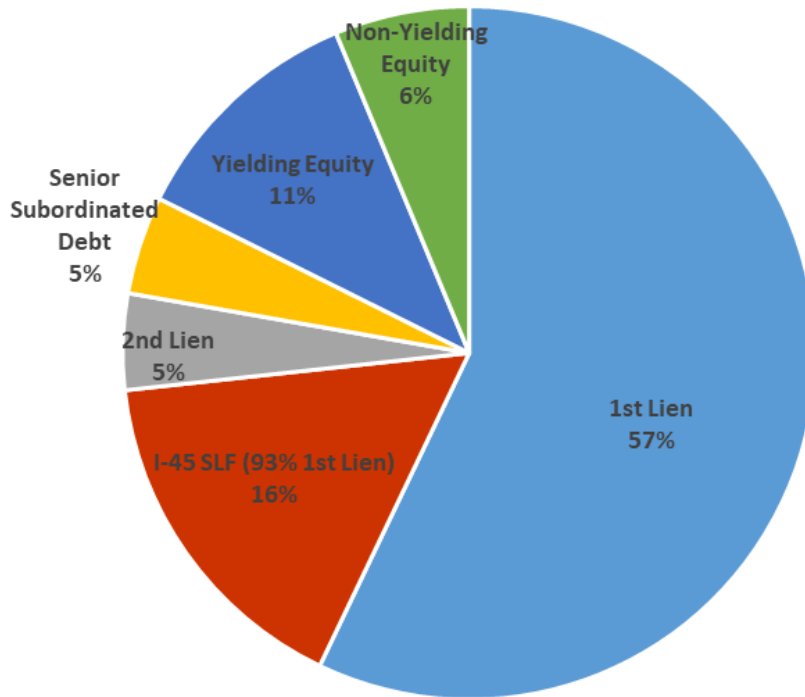
### Credit Portfolio Heavily Weighted to First Lien



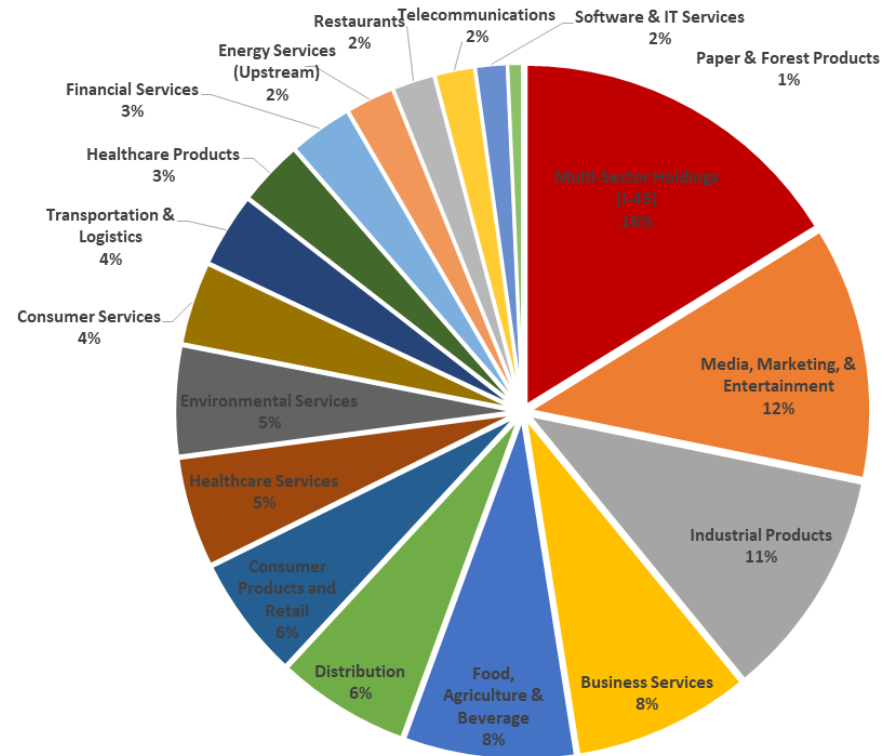
# CSWC Portfolio Mix as of 6/30/18 at Fair Value

Current Investment Portfolio of \$411 MM continues to be granular and diverse

Current Investment Portfolio (By Type)



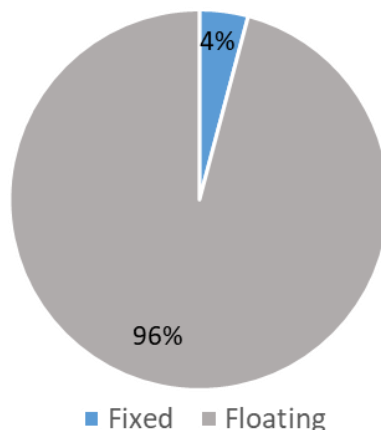
Current Investment Portfolio (By Industry)



# Interest Rate Sensitivity

## Debt Portfolio Exposure at 6/30/18 Well-Positioned for Rising Interest Rate Environment

### Fixed vs. Floating Portfolio Composition <sup>(1)</sup>



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
(50bps)	(\$1,250,241)	(\$0.08)
50 bps	\$1,271,182	\$0.08
100bps	\$2,542,364	\$0.16
150bps	\$3,813,547	\$0.24
200bps	\$5,084,729	\$0.31

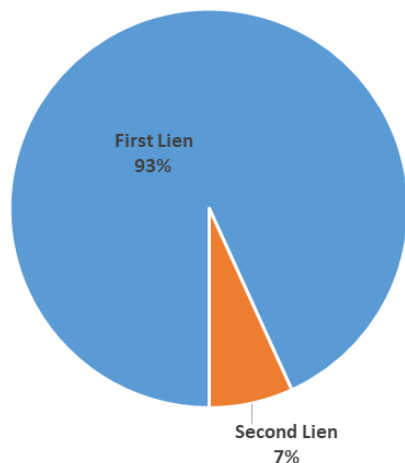
(1) Portfolio Composition includes I-45 assets pro rata as a % of CSWC's equity investment in the fund

Note: Illustrative change in NII is based on a projection of CSWC's existing debt investments as of 6/30/18, adjusted only for changes in Base Interest Rate. Base Interest Rate used in this analysis is 3-Month LIBOR of 2.34% at 6/30/18. The results of this analysis include the I-45 Senior Loan Fund, which is comprised of 100% floating rate assets and liabilities.

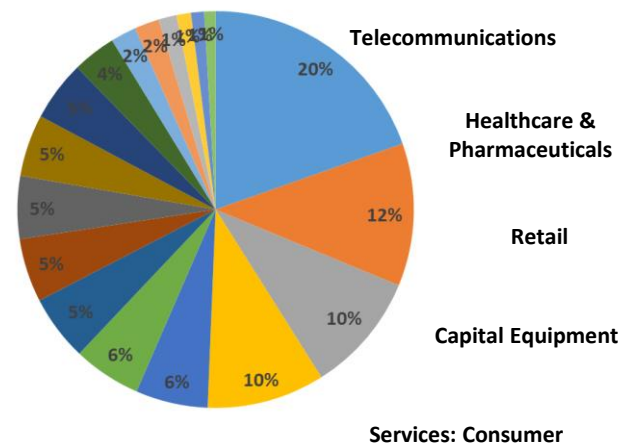
# I-45 Portfolio Overview

I-45 loan portfolio of \$228 MM is 93% first lien with average hold size of 2.2%

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
(In Thousands)	<u>9/30/2017</u>	<u>12/31/2017</u>	<u>3/31/2018</u>	<u>6/30/2018</u>
Total Debt Investments at Fair Value	\$223,807	\$217,964	\$220,807	\$228,468
Number of Issuers	46	44	43	45
Wtd. Avg. Issuer EBITDA	\$79,009	\$73,392	\$73,995	\$72,607
Avg. Investment Size as a % of Portfolio	2.2%	2.3%	2.3%	2.2%
Wtd. Avg. Net Leverage on Investments <sup>(1)</sup>	3.5x	3.3x	3.6x	3.7x
Wtd. Avg. Yield	7.7%	7.4%	7.5%	7.7%
Wtd. Avg. Duration (Yrs)	4.8	4.7	4.6	4.5

(1) Through I-45 Security

# Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/17	Quarter Ended 12/31/17	Quarter Ended 3/31/18	Quarter Ended 6/30/18
<b>Investment Income</b>				
Interest Income	\$5,282	\$5,566	\$6,575	\$7,643
Dividend Income	\$3,088	\$3,149	\$3,069	\$3,075
Fees and Other Income	\$139	\$304	\$230	\$389
<b>Total Investment Income</b>	<b>\$8,509</b>	<b>\$9,019</b>	<b>\$9,874</b>	<b>\$11,107</b>
<b>Expenses</b>				
Cash Compensation	\$1,606	\$1,885	\$1,884	\$1,910
Share Based Compensation	\$384	\$479	\$477	\$475
General & Administrative	\$1,364	\$907	\$1,086	\$1,353
Spin-off Related Expenses	\$173	\$172	\$0	\$0
<b>Total Expenses (excluding Interest)</b>	<b>\$3,527</b>	<b>\$3,443</b>	<b>\$3,447</b>	<b>\$3,738</b>
Interest Expense	\$911	\$1,275	\$1,951	\$2,373
<b>Pre-Tax Net Investment Income</b>	<b>\$4,071</b>	<b>\$4,301</b>	<b>\$4,476</b>	<b>\$4,996</b>
<b>Taxes and Gain / (Loss)</b>				
Income Tax Benefit (Expense)	(\$134)	\$362	(\$279)	(\$379)
Net realized gain (loss) on investments	\$210	\$617	\$131	\$18,819
Net increase (decrease) in unrealized appreciation of investments	\$4,496	\$4,963	\$10,649	(\$11,783)
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$8,643</b>	<b>\$10,243</b>	<b>\$14,977</b>	<b>\$11,653</b>
Weighted Average Diluted Shares Outstanding	16,078	16,176	16,139	16,201
<b>Pre-Tax Net Investment Income Per Dil. Weighted Average Share</b>	<b>\$0.25</b>	<b>\$0.27</b>	<b>\$0.28</b>	<b>\$0.31</b>

# Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/18
<b>Assets</b>				
Portfolio Investments	\$321,860	\$367,120	\$393,095	\$411,330
Cash & Cash Equivalents	\$33,329	\$20,527	\$7,907	\$12,532
Deferred Tax Asset	\$1,846	\$2,080	\$2,050	\$2,116
Other Assets	\$11,635	\$13,123	\$14,438	\$24,948
<b>Total Assets</b>	<b>\$368,670</b>	<b>\$402,850</b>	<b>\$417,490</b>	<b>\$450,926</b>
<b>Liabilities</b>				
December 2022 Notes	\$0	\$55,236	\$55,305	\$56,646
Credit Facility	\$56,000	\$35,000	\$40,000	\$65,000
Other Liabilities	\$20,156	\$14,084	\$13,897	\$21,899
<b>Total Liabilities</b>	<b>\$76,156</b>	<b>\$104,320</b>	<b>\$109,202</b>	<b>\$143,545</b>
<b>Shareholders Equity</b>				
<b>Net Asset Value</b>	<b>\$292,514</b>	<b>\$298,530</b>	<b>\$308,288</b>	<b>\$307,381</b>
<b>NAV per Share</b>	<b>\$18.26</b>	<b>\$18.44</b>	<b>\$19.08</b>	<b>\$18.87</b>
<b>Debt to Equity</b>	<b>0.19x</b>	<b>0.30x</b>	<b>0.31x</b>	<b>0.40x</b>



# Portfolio Statistics

*Continuing to build a well performing credit portfolio with no non-accruals*

<i>(In Thousands)</i>	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/18
<b>Portfolio Statistics</b>				
Fair Value of Debt Investments	\$187,316	\$226,441	\$239,122	\$272,133
Average Debt Investment Hold Size	\$7,805	\$8,709	\$9,197	\$9,719
Fair Value of Debt Investments as a % of Par	99%	99%	99%	99%
% of Debt Portfolio on Non-Accrual (at Fair Value)	0.0%	0.0%	0.0%	0.0%
Weighted Average Investment Rating <sup>(1)</sup>	2.0	2.0	2.0	2.0
Weighted Average Yield on Debt Investments	10.71%	10.95%	11.46%	11.73%
Total Fair Value of Portfolio Investments	\$321,860	\$367,120	\$393,095	\$411,330
Weighted Average Yield on all Portfolio Investments <sup>(2)</sup>	10.65%	10.55%	10.48%	10.60%
Investment Mix (Debt vs. Equity) <sup>(3) (4)</sup>	74% / 26%	75% / 25%	73% / 27%	79% / 21%
Investment Mix (Yielding vs. Non-Yielding) <sup>(4)</sup>	94% / 6%	94% / 6%	92% / 8%	94% / 6%

(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) Includes dividends from Media Recovery, Inc. and I-45 Senior Loan Fund

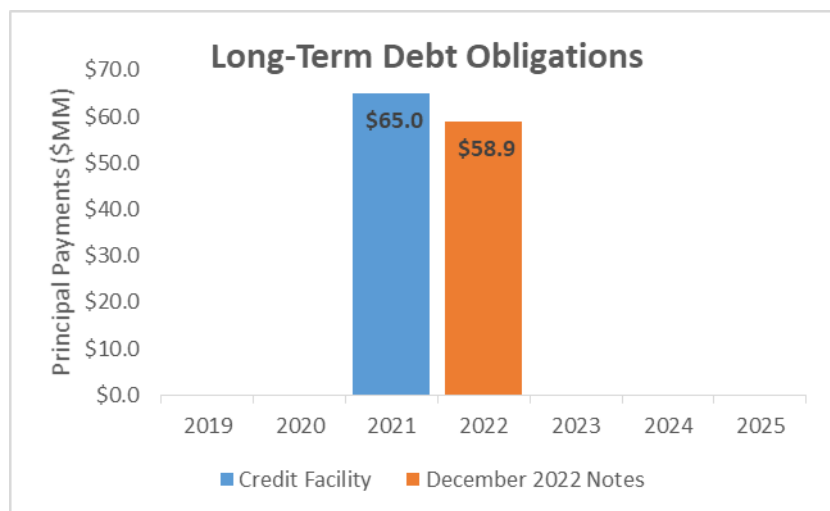
(3) Excludes CSWC equity investment in I-45 Senior Loan Fund

(4) At Fair Value

# Significant Unused Debt Capacity with Long-Term Duration

## Earliest Debt Maturity occurs in November 2021

Facility	Total Commitments	Interest Rate	Maturity	Principal Drawn
Credit Facility <sup>(1)</sup>	\$210.0 MM	L + 3.00% with Step-Down	November 2021	\$65.0 MM
December 2022 Notes (NASDAQ: "CSWCL") <sup>(2)</sup>	\$58.9 MM	5.95%	December 2022	\$58.9 MM



- (1) The facility has an accordion feature which allows for an increase in total commitments up to \$250.0 MM. Principal Drawn is based upon outstanding balances as of June 30, 2018.
- (2) Redeemable at CSWC's option beginning December 2019. Principal drawn is based upon outstanding balances as of June 30, 2018. Subsequent to quarter end, CSWC sold an additional 419,508 notes, bringing total gross proceeds from the ATM Program to \$12.0 MM as of August 3, 2018.

# Investment Income Detail

## Constructing a portfolio of investments with recurring cash yield

- Non-Cash and Non-Recurring investment income remain a minor portion of Total Investment Income

<i>(In Thousands)</i>	Quarter Ended 9/30/17	Quarter Ended 12/31/17	Quarter Ended 3/31/18	Quarter Ended 6/30/18
<b>Investment Income Breakdown</b>				
Cash Interest	\$5,082	\$5,357	\$6,300	\$7,324
Cash Dividends	\$3,018	\$3,076	\$2,990	\$3,008
PIK Income	\$70	\$72	\$91	\$79
Amortization of purchase discounts and fees	\$200	\$209	\$264	\$312
Management/Admin Fees	\$139	\$146	\$184	\$181
Prepayment Fees & Other Income	\$0	\$159	\$45	\$203
<b>Total Investment Income</b>	<b>\$8,509</b>	<b>\$9,019</b>	<b>\$9,874</b>	<b>\$11,107</b>
<b>Key Metrics</b>				
Cash Income as a % of Investment Income	97%	97%	96%	96%
% of Total Investment Income that is Recurring <sup>(1)</sup>	97%	95%	98%	97%

(1) Non-Recurring income principally made up of loan prepayment fees

# Key Financial Metrics

*Strong Earnings ROE as Portfolio continues to appreciate*

	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/18
<b>Key Financial Metrics</b>				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.25	\$0.27	\$0.28	\$0.31
Annualized Pre-Tax Net Investment Income Return on Equity (ROE)	5.64%	5.82%	6.02%	6.46%
Realized Earnings Per Wtd Avg Diluted Share	\$0.26	\$0.33	\$0.27	1.45
Annualized Realized Earnings ROE	5.75%	7.15%	5.82%	30.32%
Earnings Per Wtd Avg Diluted Share	\$0.54	\$0.63	\$0.93	\$0.72
Annualized Earnings Return on Equity (ROE)	11.97%	13.87%	20.13%	15.08%
Regular Dividends per Share	\$0.24	\$0.26	\$0.28	\$0.29
Supplemental Dividends per Share	\$0.00	\$0.00	\$0.00	\$0.60
Total Dividends per Share	\$0.24	\$0.26	\$0.28	\$0.89
Dividend Yield <sup>(1)</sup>	5.6%	6.3%	6.6%	19.7%

(1) Dividend Yield is calculated as Quarterly Annualized Total Dividend / CSWC Share Price at Qtr. End

# Corporate Information

## Board of Directors

### Inside Directors

Bowen S. Diehl

### Independent Directors

David R. Brooks

Christine S. Battist

T. Duane Morgan

Jack D. Furst

William R. Thomas

John H. Wilson

## Senior Management

Bowen S. Diehl

*President & Chief Executive Officer*

Michael S. Sarner

*Chief Financial Officer, Secretary & Treasurer*

## Fiscal Year End

March 31

## Independent Auditor

RSM US

Chicago, IL

## Investor Relations

Michael S. Sarner

Capital Southwest

214-884-3829

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

## Corporate Counsel

Eversheds Sutherland (US) LLP

## Corporate Offices & Website

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13th Floor

Dallas, TX 75240

<http://www.capitalsouthwest.com>

## Securities Listing

Nasdaq: "CSWC" (Common Stock)

Nasdaq: "CSWCL" (Notes)

## Transfer Agent

American Stock Transfer & Trust Company, LLC

800-937-5449

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

## Industry Analyst Coverage

### Firm

National Securities Corporation  
Ladenburg Thalmann  
Janney Montgomery Scott, LLC  
JMP Securities

### Analyst

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