Capital Southwest Announces Financial Results for Second Fiscal Quarter Ended September 30, 2020 and Announces Total Dividends of $0.51 per share for the Quarter Ended December 31, 2020

October 30, 2020

CSWC Reports Pre-Tax Net Investment Income of $0.44 Per Share and Estimates Undistributed Taxable Income at Quarter End of $1.19 Per Share

DALLAS, Oct. 30, 2020 (GLOBE NEWSWIRE) -- Capital Southwest Corporation ("Capital Southwest," "CSWC" or the "Company") (Nasdaq: CSWC), an internally managed business development company focused on providing flexible financing solutions to support the acquisition and growth of middle market businesses, today announced its financial results for the second fiscal quarter ended September 30, 2020.

Second Quarter Fiscal Year 2021 Financial Highlights

- Total Investment Portfolio: $631.2 million
  - Credit Portfolio of $520.6 million:
    - 91% 1st Lien Senior Secured Debt
    - $63.3 million in new committed credit investments
    - Weighted Average Yield on Debt Investments: 10.3%
    - No new credit investments placed on non-accrual during the quarter
      - Three Upper Middle Market 1st Lien Senior Secured Debt investments remain on non-accrual with a fair value of $10.9 million, representing 1.7% of the total investment portfolio
  - Equity Portfolio of $49.1 million, excluding investment in I-45 Senior Loan Fund ("I-45 SLF")
    - $3.0 million in new committed equity co-investments
  - CSWC Investment in I-45 SLF of $61.5 million at fair value
    - I-45 SLF portfolio of $177.5 million
      - Portfolio consists of 42 issuers: 96% 1st Lien Debt and 4% 2nd Lien Debt
    - $107.0 million of debt outstanding at I-45 SLF as of September 30, 2020
      - I-45 SLF fund leverage of 1.39x debt to equity at fair value at quarter end
    - I-45 SLF paid a $1.7 million quarterly dividend to CSWC, an annualized yield of 11.0%
- Pre-Tax Net Investment Income: $8.1 million, or $0.44 per weighted average diluted share
- Dividends: Paid $0.41 per share Regular Dividend, $0.10 per share Supplemental Dividend
  - 103% LTM Pre-Tax NII Regular Dividend Coverage
  - Total Dividends for the quarter ended September 30, 2020 of $0.51 per share
  - Undistributed Taxable Income at quarter end estimated at $1.19 per share
- Net Realized and Unrealized Portfolio Appreciation: $8.4 million
  - $7.0 million of net appreciation related to the upper middle market portfolio, including I-45 SLF
  - $1.4 million of net appreciation related to the lower middle market portfolio
- Realized Loss on Extinguishment of Debt: $0.3 million
  - Redeemed $20 million in aggregate principal of the 5.95% Notes due 2022 (the "December 2022 Notes")
- Balance Sheet:
  - Cash and Cash Equivalents: $16.0 million
  - Total Net Assets: $286.1 million
  - Net Asset Value ("NAV") per Share: $15.36

In commenting on the Company's results, Bowen Diehl, President and Chief Executive Officer, stated, "This quarter, we saw strong performance in both the Upper and Lower Middle Market portfolios. Our portfolio appreciated $8.4 million this quarter, increasing NAV per share from $14.95 to $15.36. From an investment rating perspective, our portfolio experienced two loan upgrades and zero downgrades, as well as no new non-accruing loans recorded during the quarter. On the new origination front, we remained active, committing $66.3 million in originations to both new and existing portfolio companies. We are also pleased to announce Pre-Tax Net Investment Income of $0.44 per share. We recently announced a Regular Dividend of $0.41 per share for the quarter, as well as an additional $0.10 per share funded by our large UTI (undistributed taxable income) balance. Total dividends of $0.51 per share for the quarter were flat from the prior quarter. We continued to be active in the capital markets, issuing $50 million in aggregate principal of 5.375% Notes due 2024 at par. We continue the process toward receiving a license from the U.S. Small Business Administration, submitting our final license application during the quarter. We are hopeful that we will receive formal license approval by the end of this calendar year. This license will allow us to access $175 million in long term, cost effective debt capital to deploy in our lower middle market strategy. This would clearly be a major milestone for Capital Southwest and one that once in place will provide significant earnings power for our shareholders."

Second Quarter Fiscal Year Investment Activities

During the quarter ended September 30, 2020, the Company originated investments in four new portfolio companies and six follow-on investments in

existing portfolio companies, totaling $66.3 million in capital commitments. New portfolio company investment transactions that occurred during the quarter ended September 30, 2020 are summarized as follows:

Electronic Transaction Consultants LLC, $10.0 million 1st Lien Senior Secured Debt, $3.7 million Revolving Loan, $1.0 million Common Equity: Electronic Transaction Consultants Corporation designs, implements, supports and maintains software systems used to facilitate electronic toll collections for toll road authorities and operators.

Ian, Evan, & Alexander Corporation (d/b/a EverWatch), $10.0 million 1st Lien Senior Secured Debt, $2.0 million Revolving Loan: EverWatch is a technology solutions company providing advanced defense, intelligence, and deployed support to mission critical missions in the national security and intelligence space.

RTIC Subsidiary Holdings, LLC, $6.9 million 1st Lien Senior Secured Debt, $1.1 million Revolving Loan: RTIC Holdings, LLC is the largest pure-play direct-to-consumer eCommerce provider of high-quality outdoor products that are priced for value-conscious outdoor enthusiasts.

Sonobi, Inc., $8.5 million 1st Lien Senior Secured Debt, $0.5 million Common Equity: Sonobi, Inc. is a digital media technology platform that directly connects advertisers in order to efficiently connect brands with their desired consumers.

During the quarter ended September 30, 2020, the Company received full prepayment on two Lower Middle Market investments totaling $20.8 million.

Danforth Advisors, LLC: Proceeds of $6.7 million, generating an IRR of 12.4%.

Trinity 3, LLC: Proceeds of $14.1 million, generating an IRR of 13.4%.

Second Fiscal Quarter 2021 Operating Results

For the quarter ended September 30, 2020, Capital Southwest reported total investment income of $16.7 million, compared to $15.2 million in the prior quarter. The increase in investment income was primarily attributable to an increase in average debt investments outstanding and an increase in weighted average yield on debt investments, as well as an increase in non-recurring amendment and prepayment fees received from portfolio companies during the quarter.

For the quarter ended September 30, 2020, total operating expenses (excluding interest expense) were $4.2 million, compared to $3.7 million in the prior quarter. The increase in expenses was due mainly to a true-up to our annual bonus accrual based on improvement in our overall portfolio performance, as well as an increase in share-based compensation due to additional restricted stock awards granted in the prior quarter.

For the quarter ended September 30, 2020, interest expense was $4.4 million as compared to $4.3 million in the prior quarter. The increase was due to the issuance in August 2020 of the additional 5.375% Notes due 2024.

For the quarter ended September 30, 2020, total pre-tax net investment income was $8.1 million, compared to $7.2 million in the prior quarter.

For the quarter ended September 30, 2020, Capital Southwest had a tax benefit of $0.2 million as compared to tax expense of $0.4 million in the previous quarter. The decrease was primarily due to losses from partnership investments held in the Taxable Subsidiary.

During the quarter ended September 30, 2020, Capital Southwest recorded total net realized and unrealized gains on investments of $8.4 million, compared to $2.1 million in the prior quarter. For the quarter ended September 30, 2020, this included total net realized losses on investments of $1.3 million and net unrealized appreciation on investments of $9.6 million, of which $1.3 million was the reversal of net unrealized depreciation recognized in prior periods due to realized losses noted above. The net increase in net assets resulting from operations was $16.4 million for the quarter, compared to $8.9 million in the prior quarter.

The Company's NAV at September 30, 2020 was $15.36 per share, as compared to $14.95 at June 30, 2020. The increase in NAV per share from the prior quarter is primarily due to net unrealized appreciation on the investment portfolio.

Liquidity and Capital Resources

At September 30, 2020, Capital Southwest had approximately $16.0 million in unrestricted cash and money market balances, $187.0 million of total debt outstanding on the Credit Facility, $56.3 million, net of unamortized debt issuance costs, of the December 2022 Notes outstanding, and $122.6 million, net of unamortized debt issuance costs, of the October 2024 Notes outstanding. As of September 30, 2020, Capital Southwest had $134.6 million in available borrowings under the Credit Facility. The debt to equity ratio at the end of the quarter was 1.28 to 1.

In September 2019, the Company issued $65.0 million in aggregate principal amount of 5.375% Notes due 2024 (the "Existing October 2024 Notes"). On October 8, 2019, the Company issued an additional $10.0 million in aggregate principal amount of the October 2024 Notes (the "Additional October 2024 Notes" together with the Existing October 2024 Notes, the "October 2024 Notes"). In August 2020, the Company issued an additional $50.0 million in aggregate principal amount of the October 2024 Notes (the "New Notes" together with the Existing October 2024 Notes and the Additional October 2024 Notes, the "October 2024 Notes"). The total net proceeds from the offering of the October 2024 Notes was $122.5 million, before offering expenses payable by us. The October 2024 Notes mature on October 1, 2024 and may be redeemed in whole or in part at any time prior to July 1, 2024, at par plus a "make-whole" premium, and thereafter at par. The October 2024 Notes bear interest at a rate of 5.375% per year, payable semi-annually on April 1 and October 1 of each year, beginning on April 1, 2020.

On September 29, 2020 (the "Redemption Date"), the Company redeemed $20 million in aggregate principal of the December 2022 Notes. The December 2022 Notes were redeemed at 100% of their principal amount, plus the accrued and unpaid interest thereon, through, but excluding the Redemption Date. Accordingly, during the three months ended September 30, 2020, the Company recognized realized losses on the extinguishment of debt of $0.3 million, equal to the write-off of the related unamortized debt issuance costs during the quarter ended September 30, 2020.

In December 2018, the Company entered into the Amended and Restated Senior Secured Revolving Credit Agreement (the "Amended and Restated Agreement"), and a related Amended and Restated Guarantee, Pledge and Security Agreement, to amend and restate its Senior Secured Revolving Credit Facility (the "Credit Facility"). On May 23, 2019, the Company entered into an Incremental Assumption Agreement, which increased the total commitments under the Credit Facility by $25 million. The increase was executed under the accordion feature of the Credit Facility and increased total commitments from $270 million to $295 million. On March 19, 2020, CSWC entered into an Incremental Assumption Agreement, which increased the total commitments under the accordion feature of the Credit Facility by $30 million, increasing total commitments from $295 million to $325 million.

On March 4, 2019, the Company entered into separate equity distribution agreements with certain sales agents through which it may offer and sell, from time to time, shares of its common stock having an aggregate offering price of up to $50,000,000 (the "Equity ATM Program"). On February 4, 2020, the Company (i) increased the maximum amount of shares of its common stock to be sold through the Equity ATM Program to $100,000,000

from $50,000,000 and (ii) added two additional sales agents to the Equity ATM Program.

During the quarter ended September 30, 2020, the Company sold 35,112 shares of its common stock under the Equity ATM Program at a weighted-average price of $14.99 per share, raising $0.5 million of gross proceeds. Net proceeds were $0.5 million after commissions to the sales agents on shares sold. Cumulative to date, the Company has sold 1,903,377 shares of its common stock under the Equity ATM Program at a weighted-average price of $20.31, raising $38.7 million of gross proceeds. Net proceeds were $37.9 million after commissions to the sales agents on shares sold. As of September 30, 2020, the Company has $61.3 million available under the Equity ATM Program.

Additionally, I-45 SLF has total commitments outstanding of $150 million from a group of four bank lenders in its Deutsche Bank led credit facility, which is scheduled to mature in November 2024. As of September 30, 2020, I-45 SLF had $107 million in borrowings outstanding under its credit facility.

Share Repurchase Program

On January 25, 2016, Capital Southwest announced that its Board of Directors authorized the repurchase of up to $10.0 million of its common stock at prices below the Company's net asset value per share as reported in its most recent financial statements. The Board authorized the share repurchase program because it believes that the Company's common stock may be undervalued from time to time due to market volatility.

On March 26, 2020, the aggregate amount of the Company's common stock purchased (inclusive of commission fees) pursuant to the share repurchase agreement met the threshold set forth in the share repurchase agreement and, as a result, the Company ceased purchasing common stock under the share repurchase program on such date. Cumulative to date, the Company has repurchased a total of 840,543 shares at an average price of $11.85 per share, including commissions paid. Accordingly, during the quarter ended September 30, 2020, the Company did not repurchase any shares of the Company's common stock under the share repurchase program.

Declared Dividend of $0.51 Per Share for Quarter Ended December 31, 2020

On October 21, 2020, the Board declared total dividends of $0.51 per share for the quarter ended December 31, 2020, comprised of a Regular Dividend of $0.41 per share and a Supplemental Dividend of $0.10 per share.

The Company's dividend will be payable as follows:

December 31, 2020 Dividend

Amount Per Share:	$0.51
Ex-Dividend Date:	December 14, 2020
Record Date:	December 15, 2020
Payment Date:	December 31, 2020

When declaring dividends, the Board reviews estimates of taxable income available for distribution, which may differ from net investment income under generally accepted accounting principles. The final determination of taxable income for each year, as well as the tax attributes for dividends in such year, will be made after the close of the tax year.

Capital Southwest maintains a dividend reinvestment plan ("DRIP") that provides for the reinvestment of dividends on behalf of its registered stockholders who hold their shares with Capital Southwest's transfer agent and registrar, American Stock Transfer and Trust Company. Under the DRIP, if the Company declares a dividend, registered stockholders who have opted into the DRIP by the dividend record date will have their dividend automatically reinvested into additional shares of Capital Southwest common stock.

Second Quarter 2021 Earnings Results Conference Call and Webcast

Capital Southwest has scheduled a conference call on Monday, November 2, 2020, at 11:00 a.m. Eastern Time to discuss the second quarter 2021 financial results. You may access the call by dialing (866) 502-8274 and using the Conference ID 2058491 at least 10 minutes before the call. The call can also be accessed using the Investor Relations section of Capital Southwest's website at www.capitalsouthwest.com, or by using http://edge.media-server.com/mmc/p/zcmbebos.

A telephonic replay will be available through November 9, 2020 by dialing (855) 859-2056 and using the Conference ID 2058491. An audio archive of the conference call will also be available on the Investor Relations section of Capital Southwest's website.

For a more detailed discussion of the financial and other information included in this press release, please refer to the Capital Southwest Form 10-Q for the period ended September 30, 2020 to be filed with the Securities and Exchange Commission and Capital Southwest's Second Fiscal Quarter 2021 Earnings Presentation to be posted on the Investor Relations section of Capital Southwest's website at www.capitalsouthwest.com.

About Capital Southwest

Capital Southwest Corporation (Nasdaq: CSWC) is a Dallas, Texas-based, internally managed business development company with approximately $286 million in net assets as of September 30, 2020. Capital Southwest is a middle market lending firm focused on supporting the acquisition and growth of middle market businesses with $5 million to $25 million investments across the capital structure, including first lien, unitranche, second lien, subordinated debt and non-control equity co-investments. As a public company with a permanent capital base, Capital Southwest has the flexibility to be creative in its financing solutions and to invest to support the growth of its portfolio companies over long periods of time.

Forward-Looking Statements

This press release contains historical information and forward-looking statements with respect to the business and investments of Capital Southwest. Forward-looking statements are statements that are not historical statements and can often be identified by words such as "will," "believe," "expect" and similar expressions and variations or negatives of these words. These statements are based on management's current expectations, assumptions and beliefs. They are not guarantees of future results and are subject to numerous risks, uncertainties and assumptions that could cause actual results to differ materially from those expressed in any forward-looking statement. These risks include risks related to: whether the SBA ultimately issues the SBIC license and the timing thereof; changes in the markets in which Capital Southwest invests; changes in the financial, capital, and lending markets; regulatory changes; tax treatment and general economic and business conditions; and uncertainties associated with the impact from the COVID-19 pandemic, including its impact on the global and U.S. capital markets and the global and U.S. economy, the length and duration of the COVID-19 outbreak in the United States as well as worldwide and the magnitude of the economic impact of that outbreak; the effect of the COVID-19 pandemic on our business prospects and the operational and financial performance of our portfolio companies, including our ability and their ability to achieve

their respective objectives, and the effects of the disruptions caused by the COVID-19 pandemic on our ability to continue to effectively manage our business.

Readers should not place undue reliance on any forward-looking statements and are encouraged to review Capital Southwest's Annual Report on Form 10-K for the year ended March 31, 2020 and subsequent filings, including the "Risk Factors" sections therein, with the Securities and Exchange Commission for a more complete discussion of the risks and other factors that could affect any forward-looking statements. Except as required by the federal securities laws, Capital Southwest does not undertake any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events, changing circumstances or any other reason after the date of this press release.

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CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF ASSETS AND LIABILITIES
(In thousands, except shares and per share data)

	September 30, 2020 (Unaudited)	March 31, 2020
Assets		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: $488,474 and $436,463, respectively)	$ 483,552	$ 421,280
Affiliate investments (Cost: $89,548 and $94,724, respectively)	86,162	92,032
Control investments (Cost: $80,800 and $68,000, respectively)	61,483	39,760
Total investments (Cost: $658,822 and $599,187, respectively)	631,197	553,072
Cash and cash equivalents	16,011	13,744
Receivables:		
Dividends and interest	10,170	10,389
Escrow	1,150	1,643
Other	300	51
Income tax receivable	344	147
Deferred tax asset	1,421	1,402
Debt issuance costs (net of accumulated amortization of $3,144 and $2,720, respectively)	2,556	2,980
Other assets	1,116	1,531
Total assets	$ 664,265	$ 584,959
Liabilities		
December 2022 Notes (Par value: $57,136 and $77,136, respectively)	$ 56,339	$ 75,812
October 2024 Notes (Par value: $125,000 and $75,000, respectively)	122,623	73,484
Credit facility	187,000	154,000
Other liabilities	6,526	4,883
Accrued restoration plan liability	3,011	3,082
Income tax payable	649	513
Deferred tax liability	1,988	963
Total liabilities	378,136	312,737
Commitments and contingencies (Note 10)		
Net Assets		
Common stock, $0.25 par value: authorized, 40,000,000 shares; issued, 20,962,764 shares at September 30, 2020 and 20,337,610 shares at March 31, 2020	5,241	5,085
Additional paid-in capital	318,307	310,846
Total distributable earnings (loss)	(13,482)	(19,772)
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	286,129	272,222
Total liabilities and net assets	$ 664,265	$ 584,959

Net asset value per share (18,623,252 shares outstanding at September 30, 2020 and 17,998,098 shares outstanding at March 31, 2020)	$ 15.36	$ 15.13

CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In thousands, except shares and per share data)

	Three Months Ended September 30,		Six Months Ended September 30,	
	2020	**2019**	**2020**	**2019**
Investment income:				
Interest income:				
Non-control/Non-affiliate investments	$ 11,879	$ 9,236	$ 21,948	$ 18,267
Affiliate investments	2,003	2,001	4,579	4,051
Control investments	—	—	—	265
Dividend income:				
Non-control/Non-affiliate investments	171	68	354	155
Affiliate investments	—	—	—	19
Control investments	1,689	3,519	3,463	7,432
Interest income from cash and cash equivalents	4	12	7	28
Fees and other income	939	382	1,498	800
Total investment income	16,685	15,218	31,849	31,017
Operating expenses:				
Compensation	1,961	1,708	3,681	3,729
Share-based compensation	853	685	1,465	1,522
Interest	4,397	3,716	8,725	7,522
Professional fees	583	462	1,153	1,088
Net pension expense	33	35	66	71
General and administrative	754	1,231	1,486	2,020
Total operating expenses	8,581	7,837	16,576	15,952
Income before taxes	8,104	7,381	15,273	15,065
Income tax (benefit) expense	(215)	566	135	890
Net investment income	$ 8,319	$ 6,815	$ 15,138	$ 14,175
Realized (loss) gain				
Non-control/Non-affiliate investments	$ 349	$ 267	$ (5,198)	$ 1,316
Affiliate investments	(1,628)	16	(1,628)	17
Control investments	—	—	—	167
Total net realized (loss) gain on investments, net of tax	(1,279)	283	(6,826)	1,500
Net unrealized appreciation (depreciation) on investments				
Non-control/Non-affiliate investments	3,919	(809)	10,824	(3,781)
Affiliate investments	1,710	(181)	(1,257)	1,025
Control investments	4,732	(2,904)	8,923	(2,819)
Income tax (provision) benefit	(725)	(475)	(1,249)	(658)
Total net unrealized appreciation (depreciation) on investments, net of tax	9,636	(4,369)	17,241	(6,233)
Net realized and unrealized gains (losses) on investments	8,357	(4,086)	10,415	(4,733)
Realized losses on extinguishment of debt	(286)	—	(286)	—
Net increase in net assets from operations	$ 16,390	$ 2,729	$ 25,267	$ 9,442
Pre-tax net investment income per share - basic and diluted	$ 0.44	$ 0.42	$ 0.83	$ 0.85

Net investment income per share – basic and diluted	$ 0.45	$ 0.38	$ 0.82	$ 0.80
Net increase in net assets from operations – basic and diluted	$ 0.88	$ 0.15	$ 1.37	$ 0.53
Weighted average shares outstanding – basic	18,600,443	17,770,011	18,375,402	17,653,607
Weighted average shares outstanding – diluted	18,600,443	17,770,011	18,375,402	17,653,607



Source: Capital Southwest Corporation