



Capital Southwest Corporation

Q2 2019 Earnings Presentation

November 7, 2018

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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 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 U.S. federal income tax purposes
- December 2014: announced intent to spin-off industrial growth company (“CSW Industrials”; Nasdaq: "CSWI") tax free
- January 2015: launched credit investment strategy
- September 2015: completed tax free spin off of CSWI
- 21 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$517MM as of September 30, 2018
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (Nasdaq: “MAIN”)

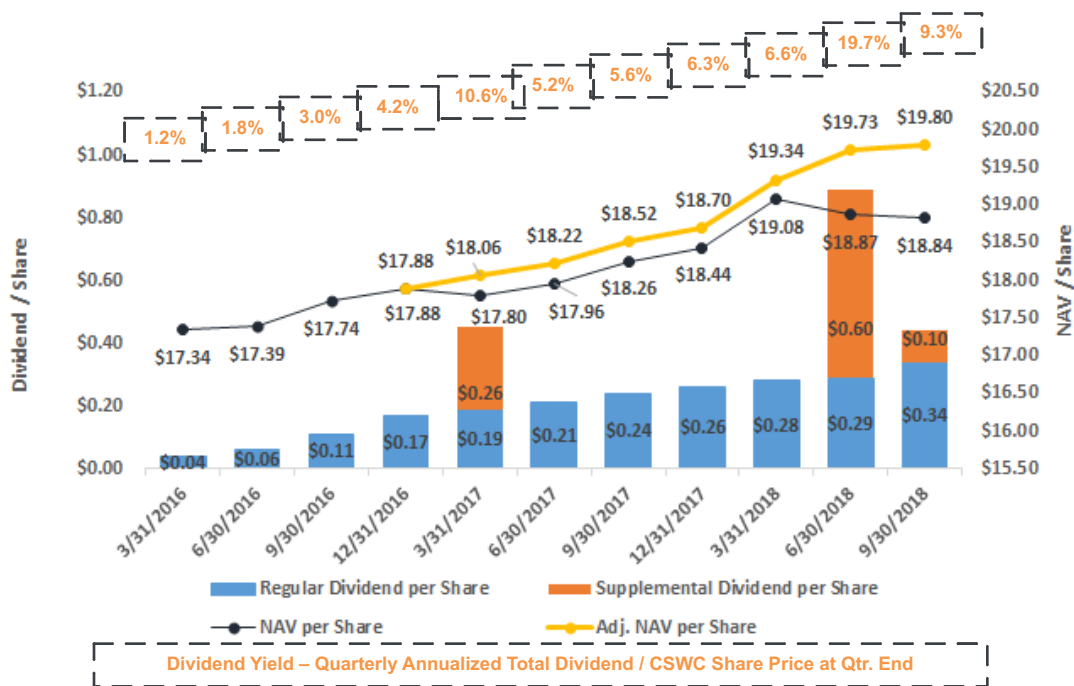
Q2 2019 Highlights

Financial Highlights

- Q2 2019 Pre-Tax Net Investment Income (“NII”) of \$5.8MM or \$0.36 per share
- Paid \$0.44 per share in Total Dividends, comprised of \$0.34 per share Regular Dividend and \$0.10 per share Supplemental Dividend
- Investment Portfolio at Fair Value increased 20% to \$492MM from \$411MM in prior quarter
 - \$96.7MM committed in six new portfolio companies and three add-ons
- Received \$2.3MM dividend from I-45 SLF, an effective yield of 13.9% at fair value
- \$83.0MM available on Credit Facility and \$10.2MM in cash and cash equivalents as of quarter end
- This quarter, sold 671,621 of our December 2022 Notes through our At-The-Market (“ATM”) Program for gross proceeds of \$17.0 MM
 - Cumulative ATM Program gross proceeds of \$19.9 MM sold at an effective yield of 5.86% to date
- Subsequent to quarter end, completed equity raise of 700,000 shares at a net price of \$18.90 per share
 - Gross proceeds of \$13.2 MM before expenses
 - Shares were sold at a 1.9% discount to the prior day closing price
 - Shares were sold above then current NAV of \$18.87

Track Record of Dividend and NAV Growth Continues

- In the last twelve months ending 9/30/18, CSWC generated \$1.22 per share in Pre-Tax NII and paid out \$1.17 per share in regular dividends
 - Eleven consecutive quarters of regular dividend per share growth
- Cumulative Regular Dividend Coverage of 102% since the 2015 spin-off
- Announced Supplemental Dividend Program in June 2018
 - Expect to pay \$0.10 per share Supplemental Dividend per quarter going forward, subject to Board approval
- Adjusted NAV (excluding Supplemental Dividends) increased to \$19.80 per share at 9/30/18 from \$19.73 per share at 6/30/18



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

Two Pronged Investment Strategy

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

- Companies with EBITDA between \$3 MM and \$15 MM
- Typical leverage of 2.0x – 4.0x Debt to EBITDA through CSWC debt position
- 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 3.0x – 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

\$96.7MM in new committed investments during the quarter (\$89.9MM funded at close) at a weighted average debt YTM of 11.9%

Portfolio Origination		Q2 2019							
Name	Industry	Type	Market	Total Debt Funded at Close (\$000s)	Total Equity Funded at Close (\$000s)	Unfunded Commitments at Close (\$000s)	Debt Spread over LIBOR	Debt Yield to Maturity	
SIMR, LLC	Healthcare services	1st Lien / Equity	LMM	\$11,688	\$5,724	\$0	9.00%	12.41%	
Adams Publishing Group, LLC	Media, marketing & entertainment	DDTL / 1st Lien	UMM	\$15,000	\$0	\$1,731	7.50%	10.30%	
Prism Spectrum Holdings, LLC	Environmental services	RLOC / 1st Lien / Equity	LMM	\$9,136	\$4,847	\$2,000	9.50%	13.01%	
ASC Ortho Management Company, LLC	Healthcare services	RLOC / 1st Lien / 2nd Lien / Equity	LMM	\$12,426	\$750	\$1,500	7.50% / 13.25% ⁽¹⁾	11.80%	
Dynamic Communities, LLC	Business services	RLOC / 1st Lien / Equity	LMM	\$11,200	\$2,000	\$500	8.00%	11.35%	
Danforth Advisors, LLC	Business services	RLOC / 1st Lien / Equity	LMM	\$7,250	\$875	\$1,000	7.25%	10.50%	
Blaschak Coal Corp.	Commodities & mining	Split Lien	LMM	\$8,500	\$0	\$0	11.00%	14.62%	
Other Portfolio Companies (Add-Ons)	Various	Equity	LMM	\$0	\$546	\$0	N/A	N/A	
Total				\$75,201	\$14,741	\$6,731	8.6%	11.9%	

*Note: Market refers to Upper Middle Market (“UMM”) and Lower Middle Market (“LMM”)
 (1) ASC Ortho Management Company, LLC 2nd Lien is a 13.25% fixed rate loan*

CSWC Portfolio Asset Mix by Market

Maintaining appropriate portfolio leverage while receiving attractive risk adjusted returns

Investment Portfolio - Statistics Q2 2019		
(In Thousands)	Lower Middle Market ⁽¹⁾	Upper Middle Market
Number of Portfolio Companies	24	11
Total Cost	\$293,306	\$87,013
Total Fair Value	\$337,776	\$87,499
Average Hold Size (at Cost)	\$12,221	\$7,910
% First Lien Investments (at Cost)	74.1%	79.1%
% Second Lien Investments (at Cost)	3.9%	20.9%
% Subordinated Debt Investments (at Cost)	6.5%	0.0%
% Equity (at Cost)	15.5%	0.0%
Wtd. Avg. Yield ⁽²⁾⁽³⁾	11.9%	10.8%
Wtd. Avg. EBITDA of Issuer (\$MM's) ⁽³⁾	\$9.0	\$66.7
Wtd. Avg. Leverage through CSWC Security ^{(3) (4)}	3.4X	3.8X

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

(1) At September 30, 2018, we had equity ownership in approximately 75.0% 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 September 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 September 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

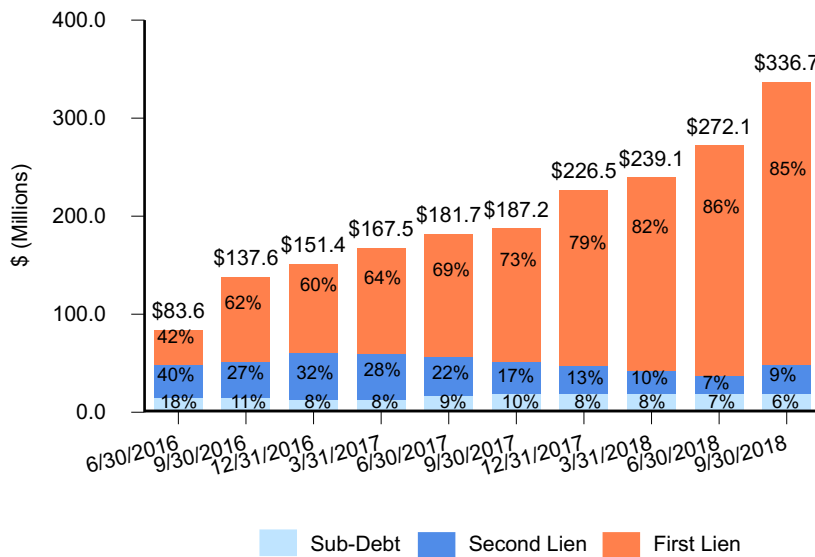
(4) Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment

Strong Track Record and Growing First Lien Credit Portfolio

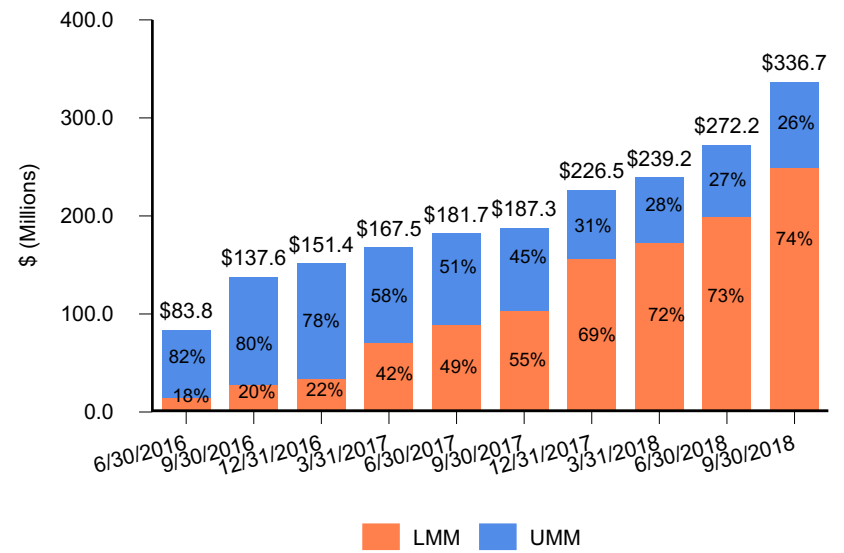
CSWC Credit Portfolio continues to migrate to First Lien and LMM Investments

- First Lien and LMM Investments have increased to 85% and 74% of the credit portfolio, respectively, as of 9/30/18
- Since launch of credit strategy in January 2015, CSWC has made \$521 MM in cumulative credit investments and realized \$128 MM of proceeds, generating a weighted average IRR of 17.0%

Credit Portfolio Heavily Weighted to First Lien



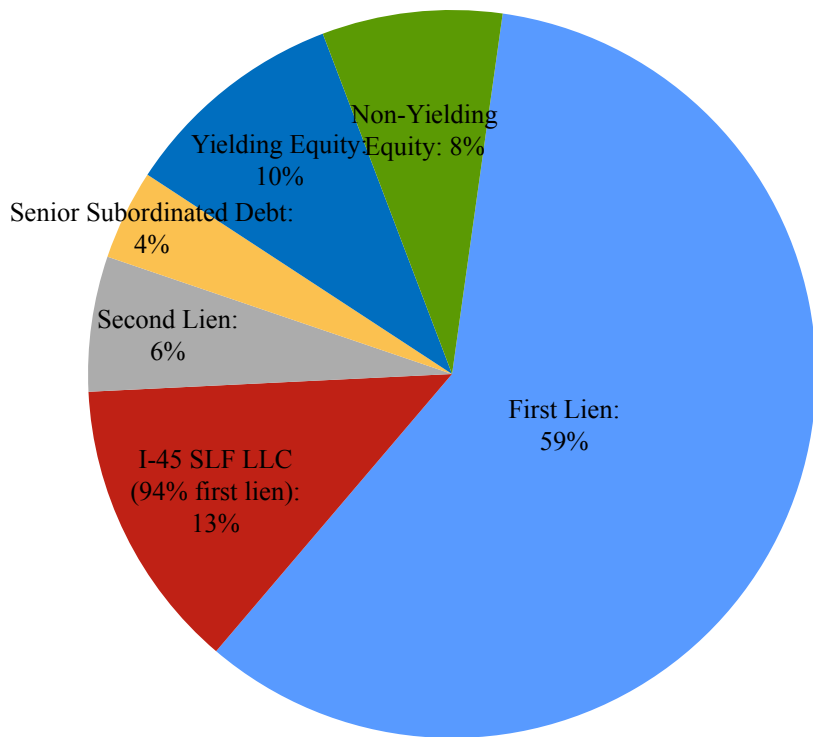
Robust LMM Credit Portfolio Growth



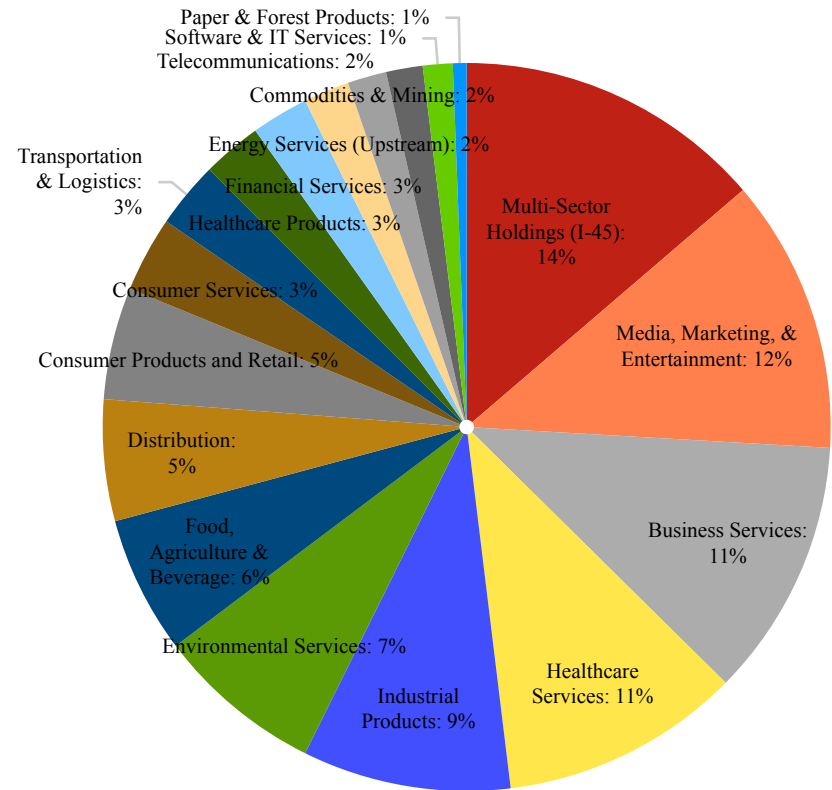
CSWC Portfolio Mix as of 9/30/18 at Fair Value

Current Investment Portfolio of \$492MM continues to be granular and diverse across industries

Current Investment Portfolio (By Type)



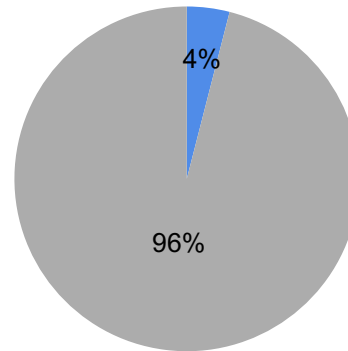
Current Investment Portfolio (By Industry)



Interest Rate Sensitivity

Debt Portfolio Exposure at 9/30/18 Well-Positioned for Rising Interest Rate Environment

Fixed vs. Floating Portfolio Exposure ⁽¹⁾



■ Fixed ■ Floating

Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
(50bps)	\$(1,240,291)	\$(0.08)
50 bps	\$1,312,950	\$0.08
100bps	\$2,625,901	\$0.16
150bps	\$3,938,851	\$0.24
200bps	\$5,251,801	\$0.32

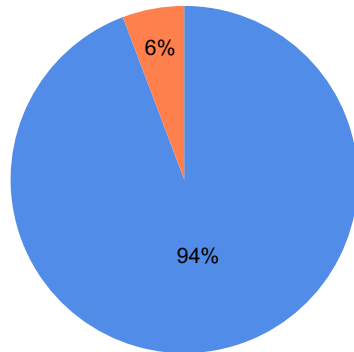
(1) Portfolio Exposure includes I-45 assets pro rata as a % of CSWC's equity investment in the fund

Note: Illustrative change in NII is based on a projection of CSWC's existing debt investments as of 9/30/18, adjusted only for changes in Base Interest Rate. Base Interest Rate used in this analysis is 3-Month LIBOR of 2.4% at 9/30/18. 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

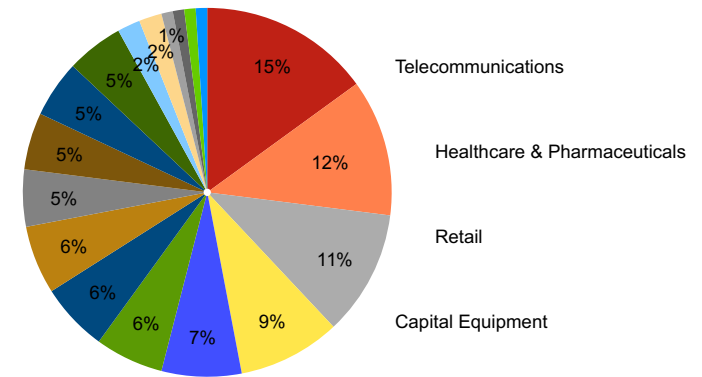
I-45 loan portfolio of \$230MM is 94% first lien with average hold size of 2.2% of the I-45 portfolio

Current I-45 Portfolio (By Type)



■ First Lien ■ Second Lien

Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
(In Thousands)	<u>12/31/2017</u>	<u>3/31/2018</u>	<u>6/30/2018</u>	<u>9/30/2018</u>
Total Debt Investments at Fair Value	\$217,964	\$220,807	\$228,468	\$229,711
Number of Issuers	44	43	45	46
Wtd. Avg. Issuer EBITDA	\$73,392	\$73,995	\$72,607	\$72,253
Avg. Investment Size as a % of Portfolio	2.3%	2.3%	2.2%	2.2%
Wtd. Avg. Net Leverage on Investments ⁽¹⁾	3.3x	3.6x	3.7x	3.8x
Wtd. Avg. Spread to LIBOR	6.1%	6.1%	6.3%	6.3%
Wtd. Avg. Duration (Yrs)	4.7	4.6	4.5	4.4

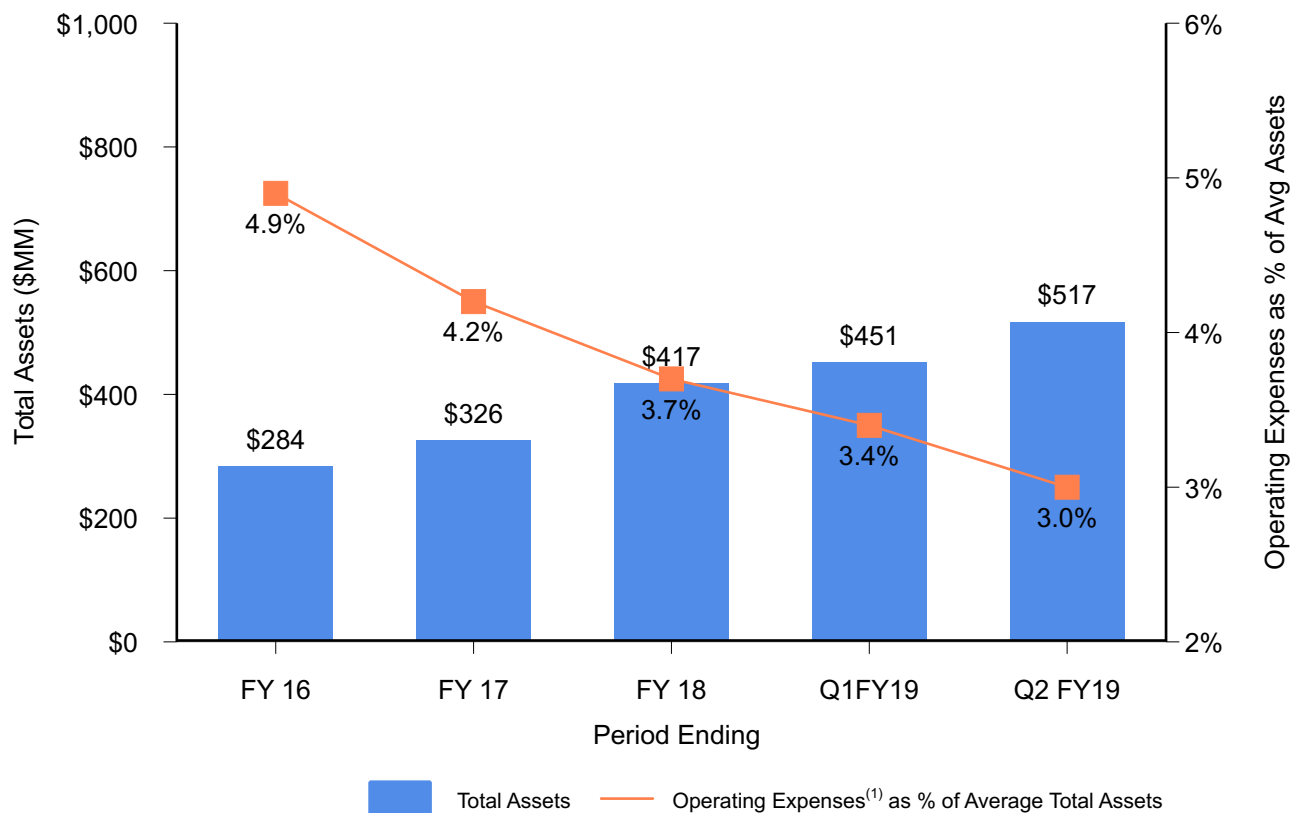
(1) Through I-45 Security

Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/2018	Quarter Ended 9/30/18
Investment Income				
Interest Income	\$5,566	\$6,575	\$7,643	\$9,232
Dividend Income	\$3,149	\$3,069	\$3,075	\$3,158
Fees and Other Income	\$304	\$230	\$389	\$205
Total Investment Income	\$9,019	\$9,874	\$11,107	\$12,595
Expenses				
Cash Compensation	\$1,885	\$1,884	\$1,910	\$1,963
Share Based Compensation	\$479	\$477	\$475	\$482
General & Administrative	\$907	\$1,086	\$1,353	\$1,239
Spin-off Related Expenses	\$172	\$0	\$0	\$0
Total Expenses (excluding Interest)	\$3,443	\$3,447	\$3,738	\$3,684
Interest Expense	\$1,275	\$1,951	\$2,373	\$3,109
Pre-Tax Net Investment Income	\$4,301	\$4,476	\$4,996	\$5,802
Taxes and Gain / (Loss)				
Income Tax Benefit (Expense)	\$362	\$(279)	\$(379)	\$(256)
Net realized gain (loss) on investments	\$617	\$131	\$18,819	\$94
Net increase (decrease) in unrealized appreciation of investments	\$4,963	\$10,649	\$(11,783)	\$948
Net increase (decrease) in net assets resulting from operations	\$10,243	\$14,977	\$11,653	\$6,588
Weighted Average Diluted Shares Outstanding	16,176	16,139	16,201	16,323
Pre-Tax Net Investment Income Per Dil. Wtd. Average Share	\$0.27	\$0.28	\$0.31	\$0.36

Operating Leverage Continues to Improve

Continue to realize operating efficiencies of internally-managed structure with a target operating leverage of sub-2.5%



Note: FY16 includes only the quarters after the 2015 spin-off. Q1 2019 and Q2 2019 are quarterly annualized

(1) Operating expenses exclude interest expense

Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/2018	Quarter Ended 9/30/18
Assets				
Portfolio Investments	\$367,120	\$393,095	\$411,330	\$491,601
Cash & Cash Equivalents	\$20,527	\$7,907	\$12,532	\$10,193
Deferred Tax Asset	\$2,080	\$2,050	\$2,116	\$2,060
Other Assets	\$13,123	\$14,438	\$24,948	\$12,653
Total Assets	\$402,850	\$417,490	\$450,926	\$516,507
Liabilities				
December 2022 Notes	\$55,236	\$55,305	\$56,646	\$73,407
Credit Facility	\$35,000	\$40,000	\$65,000	\$127,000
Other Liabilities	\$14,084	\$13,897	\$21,899	\$8,252
Total Liabilities	\$104,320	\$109,202	\$143,545	\$208,659
Shareholders Equity				
Net Asset Value	\$298,530	\$308,288	\$307,381	\$307,848
NAV per Share	\$18.44	\$19.08	\$18.87	\$18.84
Debt to Equity	0.30X	0.31X	0.40X	0.65X

Portfolio Statistics

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

<i>(In Thousands)</i>	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/2018	Quarter Ended 9/30/18
Portfolio Statistics				
Fair Value of Debt Investments	\$226,441	\$239,122	\$272,133	\$336,717
Average Debt Investment Hold Size	\$8,709	\$9,197	\$9,719	\$10,204
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 ⁽¹⁾	2.0	2.0	2.0	2.0
Weighted Average Yield on Debt Investments	10.95%	11.46%	11.73%	11.61%
Total Fair Value of Portfolio Investments	\$367,120	\$393,095	\$411,330	\$491,601
Weighted Average Yield on all Portfolio Investments ⁽²⁾	10.55%	10.48%	10.60%	11.02%
Investment Mix (Debt vs. Equity) ^{(3) (4)}	75% / 25%	73% / 27%	79% / 21%	79% / 21%
Investment Mix (Yielding vs. Non-Yielding) ⁽⁴⁾	94% / 6%	92% / 8%	94% / 6%	92% / 8%

(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

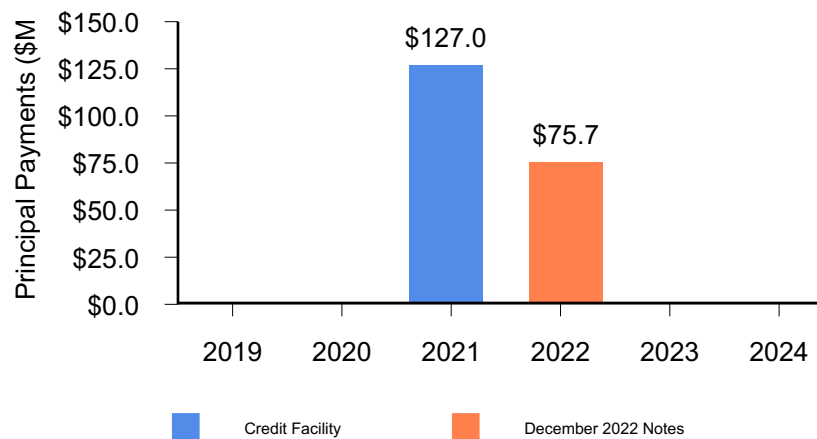
(4) At Fair Value

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 ⁽¹⁾	\$210.0 MM	L + 3.00% with Step-Down	November 2021	\$127.0MM
December 2022 Notes (NASDAQ: "CSWCL") ⁽²⁾	\$75.7MM	5.95%	December 2022	\$75.7MM

Long-Term Debt Obligations



(1) The facility has an accordion feature that allows for an increase in total commitments up to \$250 MM. Principal Drawn is based upon outstanding balances as of 9/30/18

(2) Redeemable at CSWC's option beginning December 2019. Principal drawn is based upon outstanding balances as of 9/30/18

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 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/2018	Quarter Ended 9/30/18
Investment Income Breakdown				
Cash Interest	\$5,357	\$6,300	\$7,324	\$8,815
Cash Dividends	\$3,076	\$2,990	\$3,008	\$3,112
PIK Income	\$72	\$91	\$79	\$93
Amortization of purchase discounts and fees	\$209	\$264	\$312	\$375
Management/Admin Fees	\$146	\$184	\$181	\$191
Prepayment Fees & Other Income	\$159	\$45	\$203	\$9
Total Investment Income	\$9,019	\$9,874	\$11,107	\$12,595
Key Metrics				
Cash Income as a % of Investment Income	97%	96%	96%	96%
% of Total Investment Income that is Recurring ⁽¹⁾	95%	98%	97%	99%

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

Key Financial Metrics

Strong Pre-Tax Net Investment Income and Regular Dividend growth as Investment Portfolio continues to perform

	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018	Quarter Ended 6/30/2018	Quarter Ended 9/30/18
Key Financial Metrics				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.27	\$0.28	\$0.31	\$0.36
Annualized Pre-Tax Net Investment Income Return on Equity (ROE)	5.82%	6.02%	6.46%	7.53%
Realized Earnings Per Wtd Avg Diluted Share	\$0.33	\$0.27	\$1.45	\$0.35
Annualized Realized Earnings ROE	7.15%	5.82%	30.32%	7.32%
Earnings Per Wtd Avg Diluted Share	\$0.63	\$0.93	\$0.72	\$0.40
Annualized Earnings Return on Equity (ROE)	13.87%	20.13%	15.08%	8.56%
Regular Dividends per Share	\$0.26	\$0.28	\$0.29	\$0.34
Supplemental Dividends per Share	\$0.00	\$0.00	\$0.60	\$0.10
Total Dividends per Share	\$0.26	\$0.28	\$0.89	\$0.44
Dividend Yield ⁽¹⁾	6.28%	6.58%	19.66%	9.27%

(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. Sarnar

Chief Financial Officer, Secretary & Treasurer

Fiscal Year End

March 31

Independent Auditor

RSM US
Chicago, IL

Corporate Counsel

Eversheds Sutherland (US) LLP

Corporate Offices & Website

5400 LBJ Freeway
13th Floor
Dallas, TX 75240

<http://www.capitalsouthwest.com>

Investor Relations

Michael S. Sarnar
Capital Southwest
214-884-3829

msarnar@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

Industry Analyst Coverage

Firm	Analyst	Contact Information
National Securities Corporation Ladenburg Thalmann Janney Montgomery Scott, LLC JMP Securities	Christopher R. Testa Mickey M. Schleien, CFA Mitchel Penn, CFA Christopher York	Direct: 212-417-7447 Direct: 305-572-4131 Direct: 410-583-5976 Direct: 415-835-8965