



*Capital Southwest Corporation*

# *Q1 2021 Earnings Presentation*

August 4, 2020

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# ***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 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
- 22 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$619 MM as of June 30, 2020
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (NYSE: “MAIN”)

# Q1 2021 Highlights

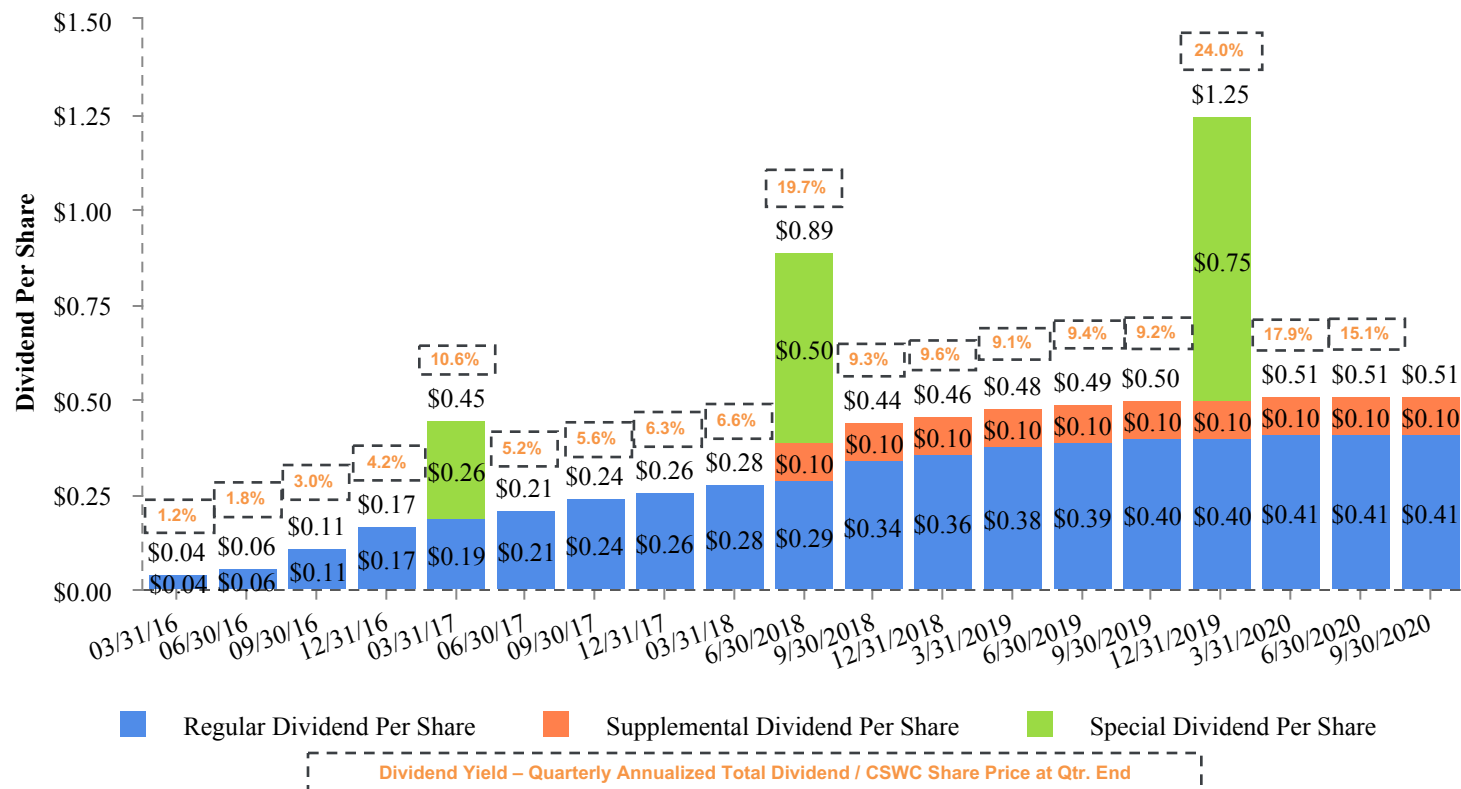
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## Financial Highlights

- Q1 2021 Pre-Tax Net Investment Income (“NII”) of \$7.2 MM or \$0.40 per share
- Paid \$0.41 per share Regular Dividend and \$0.10 per share Supplemental Dividend for the quarter ended June 30, 2020
  - Declared \$0.41 per share Regular Dividend and \$0.10 per share Supplemental Dividend for the quarter ended September 30, 2020
- Investment Portfolio at Fair Value increased to \$587 MM from \$553 MM in prior quarter
  - \$20.8 MM committed to two new portfolio companies and \$9.2 MM committed to five existing portfolio companies
  - \$2.1 MM net unrealized appreciation on the portfolio during the quarter
- Raised \$5.7 MM in gross proceeds through Equity ATM Program during the quarter
  - Cumulatively, raised \$38.1 MM in gross proceeds at a weighted average price of \$20.41 per share since inception of the Equity ATM Program in March 2019
- \$139.6 MM available on Credit Facility and \$15.0 MM in cash and cash equivalents as of quarter end
- Received "green light" letter from the U.S. Small Business Administration inviting Capital Southwest to finalize its application to form and operate a Small Business Investment Company subsidiary

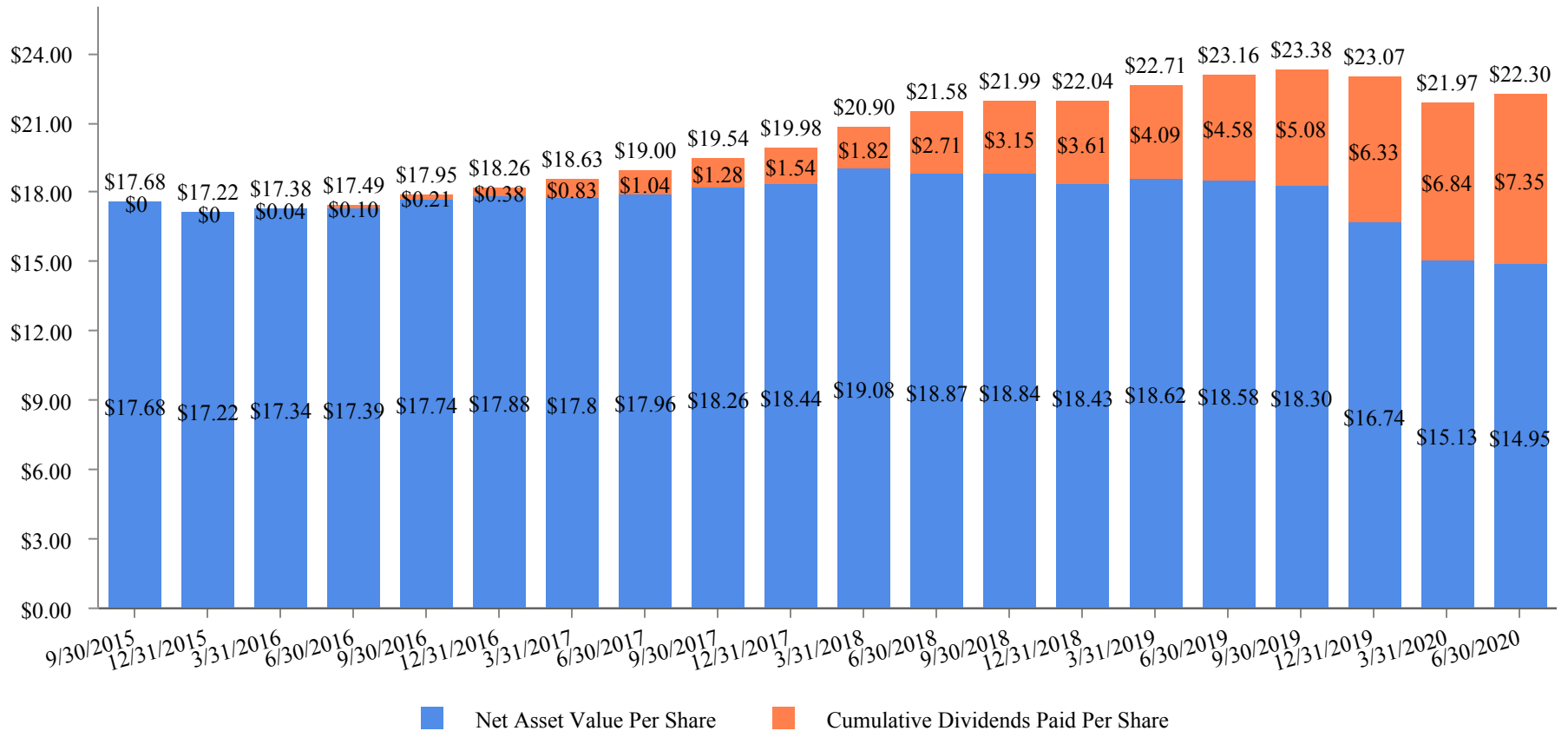
# Track Record of Consistent Dividends Continues

- In the last twelve months ending 6/30/2020, CSWC generated \$1.66 per share in Pre-Tax NII and paid out \$1.62 per share in regular dividends
- Cumulative Pre-Tax NII Regular Dividend Coverage of 106% 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
  - Undistributed Taxable Income ("UTI") of \$1.27 per share as of June 30, 2020



# History of Value Creation

**Total Value (Net Asset Value + Cumulative Dividends Paid) Increase of \$4.62 at 6/30/2020 from 9/30/2015 Spin-off of CSWI**





# 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 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

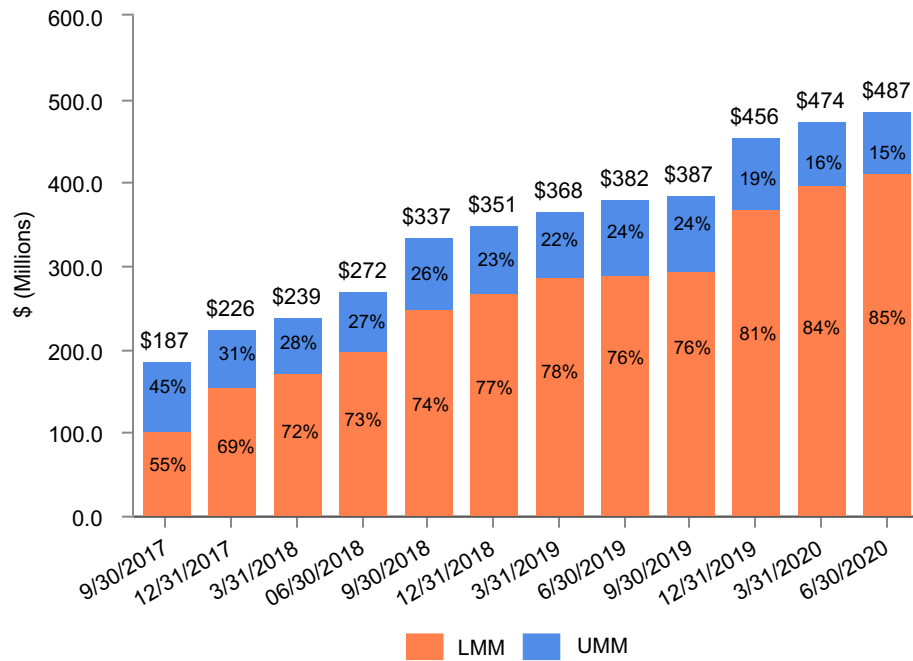
## **OPPORTUNISTIC: Upper Middle Market (“UMM”): Syndicated or Club, First and Second Lien**

- 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 LMM investments
- Provides flexibility to invest/divest opportunistically based on market conditions and liquidity position

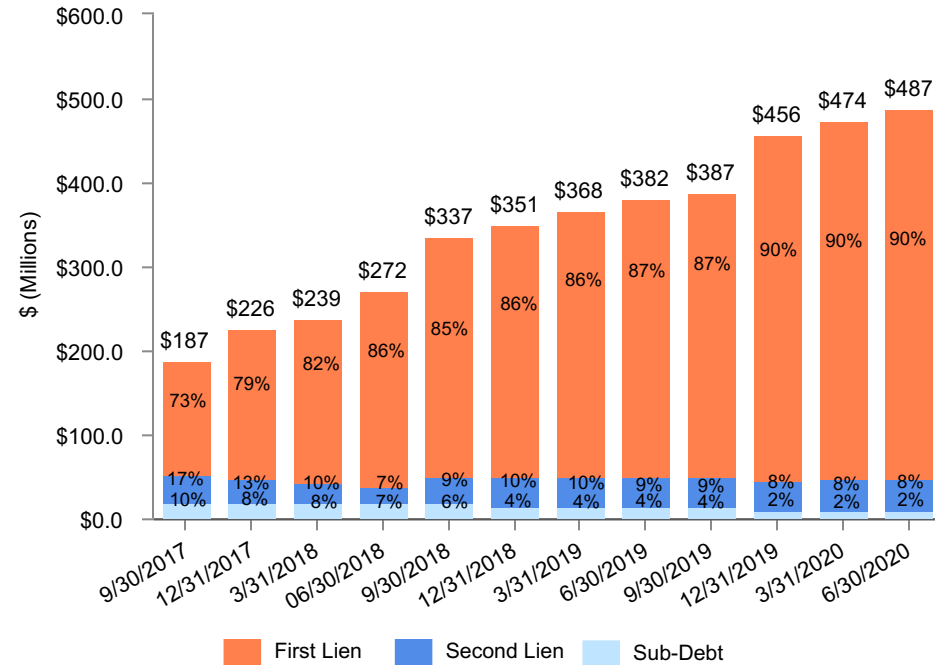
# Credit Portfolio Heavily Weighted Towards LMM and First Lien Investments

*LMM and First Lien Investments have increased to 85% and 90% of the credit portfolio, respectively, as of 6/30/2020*

## Robust LMM Credit Portfolio Growth



## Credit Portfolio Heavily Weighted to First Lien



# CSWC Originations

**\$30.0 MM in total new committed investments, consisting of \$20.8 MM committed to new portfolio companies and \$9.2 MM committed to existing portfolio companies**

Portfolio Originations		Q1 2021						
Name	Industry	Type	Market	Total Debt Funded at Close (\$000s)	Total Equity Funded at Close (\$000s)	Unfunded Commitments at Close (\$000s)	Debt Spread	Debt Yield to Maturity
Coastal Television Broadcasting Holdings	Media, Marketing, & Entertainment	First Lien	LMM	\$8,900	\$0	\$500	10.00%	13.15%
Central Medical Supply	Healthcare Services	First Lien	LMM	\$7,500	\$875	\$3,000	7.00%	9.58%
American Addiction Centers (DIP Facility)	Healthcare Services	First Lien	UMM	\$5,229	\$0	\$0	18.00%	21.00%
VTX Holdings	Software & IT Services	First Lien	LMM	\$1,500	\$398	\$0	9.15%	12.74%
AG Kings Holdings	Food, Agriculture, & Beverage	First Lien	UMM	\$0	\$0	\$1,315	8.50%	N/A
California Pizza Kitchen (Priority T/L)	Restaurants	First Lien	UMM	\$669	\$0	\$0	10.00%	14.50%
Delphi Intermediate Healthco	Healthcare Services	First Lien	UMM	\$163	\$0	\$0	10.00%	N/A
<b>Total / Weighted Average</b>				<b>\$23,960</b>	<b>\$1,273</b>	<b>\$4,815</b>	<b>10.75%</b>	<b>13.76%</b>

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

# CSWC Portfolio Asset Mix by Market

Maintaining conservative portfolio leverage while receiving attractive risk adjusted returns

Investment Portfolio - Statistics Q1 2021		
(In Thousands)	Lower Middle Market <sup>(1)</sup>	Upper Middle Market
Number of Portfolio Companies	36	11
Total Cost	\$452,387	\$91,978
Total Fair Value	\$452,372	\$78,055
Average Hold Size (at Cost)	\$12,566	\$8,362
% First Lien Investments (at Cost)	84.4%	79.7%
% Second Lien Investments (at Cost)	5.2%	16.4%
% Subordinated Debt Investments (at Cost)	2.2%	0.0%
% Equity (at Cost)	8.2%	3.9%
Wtd. Avg. Yield <sup>(2)</sup>	10.8%	6.8%
Wtd. Avg. EBITDA of Issuer (\$MM's) <sup>(3)</sup>	\$8.2	\$73.1
Wtd. Avg. Leverage through CSWC Security <sup>(4)</sup>	4.1x	4.4x

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

(1) At June 30, 2020, we had equity ownership in approximately 63.9% of our LMM investments

(2) The weighted-average annual effective yields were computed using the effective interest rates during the quarter for all debt investments at cost as of June 30, 2020, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments. As of June 30, 2020, there were three investments on non-accrual status. Weighted-average annual effective yield is not a return to shareholders and 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 EBITDA metric is calculated using investment cost basis weighting. For the quarter ended June 30, 2020, two portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

(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. Weighted average leverage is calculated using investment cost basis weighting. Management uses this metric as a guide to evaluate relative risk of its position in each portfolio debt investment. For the quarter ended June 30, 2020, two portfolio companies are excluded from this calculation due to reporting a debt to adjusted EBITDA ratio that was not meaningful

# Quarter-over-Quarter Investment Rating Migration

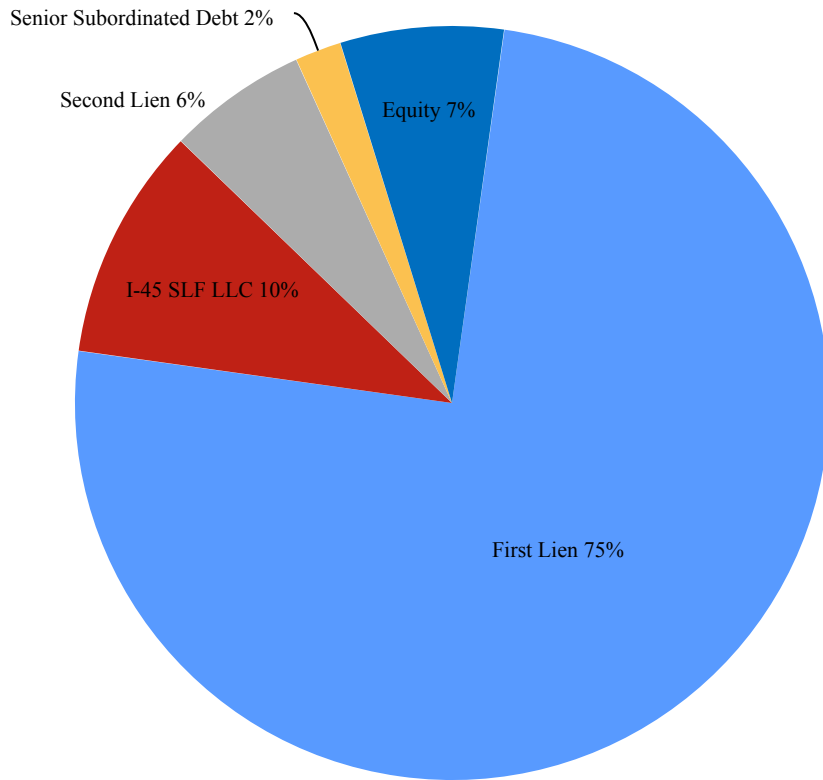
*No Investment Rating Downgrades During the Quarter as Portfolio Stabilized*

Investment Rating	3/31/2020			Investment Rating Upgrades			Investment Rating Downgrades			6/30/2020		
	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)
1	3	\$53.5	11.3%	2	\$24.9	5.1%	0	\$0.0	—%	5	\$77.4	15.9%
2	34	\$347.1	73.2%	0	\$0.0	—%	0	\$0.0	—%	37	\$342.4	70.3%
3	9	\$59.3	12.5%	0	\$0.0	—%	0	\$0.0	—%	9	\$57.2	11.7%
4	3	\$14.5	3.0%	0	\$0.0	—%	0	\$0.0	—%	2	\$10.1	2.1%
<b>Wtd. Avg. Investment Rating (at Cost)</b>	<b>2.1</b>									<b>2.1</b>		

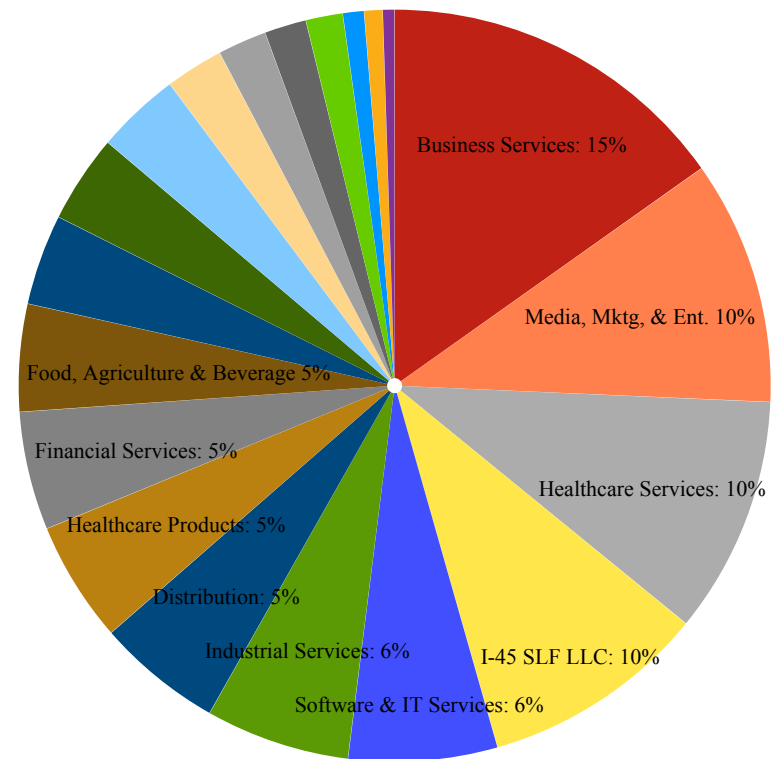
# CSWC Portfolio Mix as of 06/30/20 at Fair Value

Current Investment Portfolio of \$587.2 MM continues to be diverse across industries

Current Investment Portfolio (By Type)



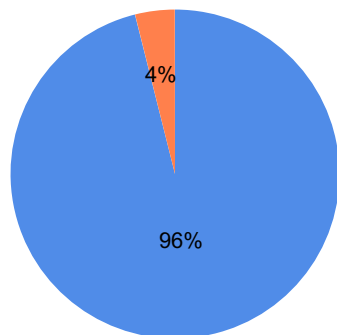
Current Investment Portfolio (By Industry)



# I-45 Portfolio Overview

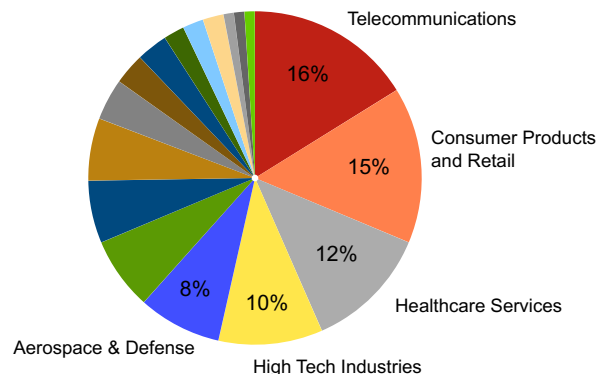
I-45 loan portfolio of \$172.6 MM is 96% first lien with average hold size of 2.4% of the I-45 portfolio

Current I-45 Portfolio (By Type)



■ First Lien    ■ Second Lien

Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
(In Thousands)	9/30/2019	12/31/2019	3/31/2020	6/30/2020
Total Debt Investments at Fair Value	\$214,762	\$206,208	\$170,860	\$172,551
Number of Issuers	46	46	43	42
Wtd. Avg. Issuer EBITDA	\$69,270	\$64,968	\$65,098	\$64,800
Avg. Investment Size as a % of Portfolio	2.2%	2.2%	2.3%	2.4%
Wtd. Avg. Net Leverage on Investments <sup>(1)(2)</sup>	4.3x	4.5x	4.6x	5.0x
Wtd. Avg. Spread to LIBOR	6.4%	6.3%	6.3%	6.3%
Wtd. Avg. Duration (Yrs)	3.9	3.8	3.5	3.3

(1) Through I-45 security

(2) One portfolio company is excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

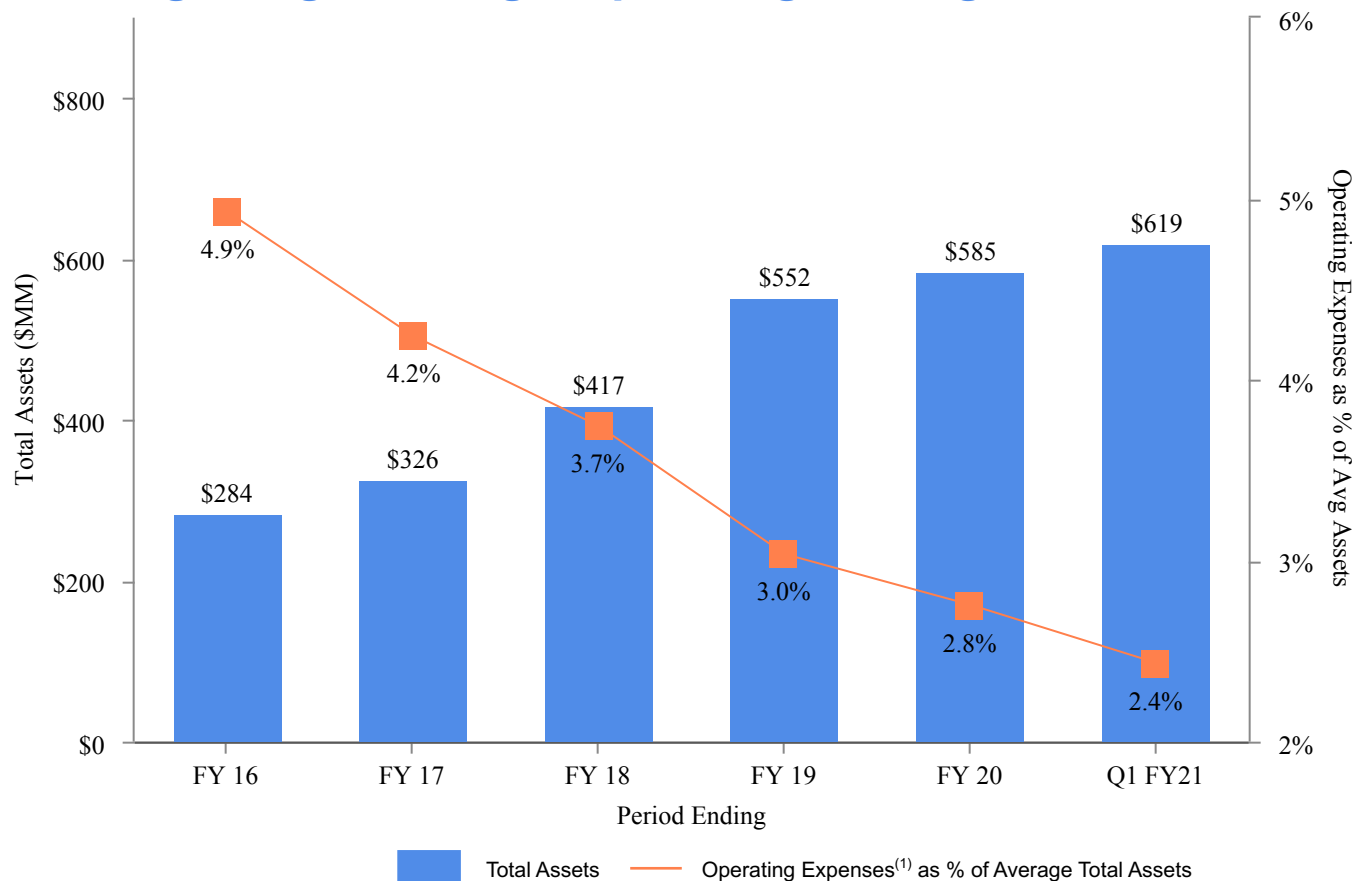
# Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/19	Quarter Ended 12/31/19	Quarter Ended 3/31/20	Quarter Ended 6/30/20
<b>Investment Income</b>				
Interest Income	\$11,237	\$11,685	\$12,650	\$12,645
Dividend Income	3,587	2,688	2,149	1,957
Fees and Other Income	394	1,611	239	562
<b>Total Investment Income</b>	<b>\$15,218</b>	<b>\$15,984</b>	<b>\$15,038</b>	<b>\$15,164</b>
<b>Expenses</b>				
Cash Compensation	\$1,708	\$2,034	\$1,547	\$1,720
Share Based Compensation	685	690	641	612
General & Administrative	1,728	1,243	1,324	1,335
<b>Total Expenses (excluding Interest)</b>	<b>\$4,121</b>	<b>\$3,967</b>	<b>\$3,512</b>	<b>\$3,667</b>
Interest Expense	\$3,716	\$4,142	\$4,172	\$4,328
<b>Pre-Tax Net Investment Income</b>	<b>\$7,381</b>	<b>\$7,875</b>	<b>\$7,354</b>	<b>\$7,169</b>
<b>Taxes and Gain / (Loss)</b>				
Income Tax Benefit (Expense)	\$(566)	\$(761)	\$(411)	\$(350)
Net realized gain (loss) on investments	283	40,818	(87)	(5,547)
Net increase (decrease) in unrealized appreciation of investments	(4,369)	(54,765)	(31,816)	7,605
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$2,729</b>	<b>\$(6,833)</b>	<b>\$(24,960)</b>	<b>\$8,877</b>
Weighted Average Diluted Shares Outstanding	17,770	18,100	18,595	18,148
<b>Pre-Tax NII Per Diluted Weighted Average Share</b>	<b>\$0.42</b>	<b>\$0.44</b>	<b>\$0.40</b>	<b>\$0.40</b>



# Operating Leverage Trend

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

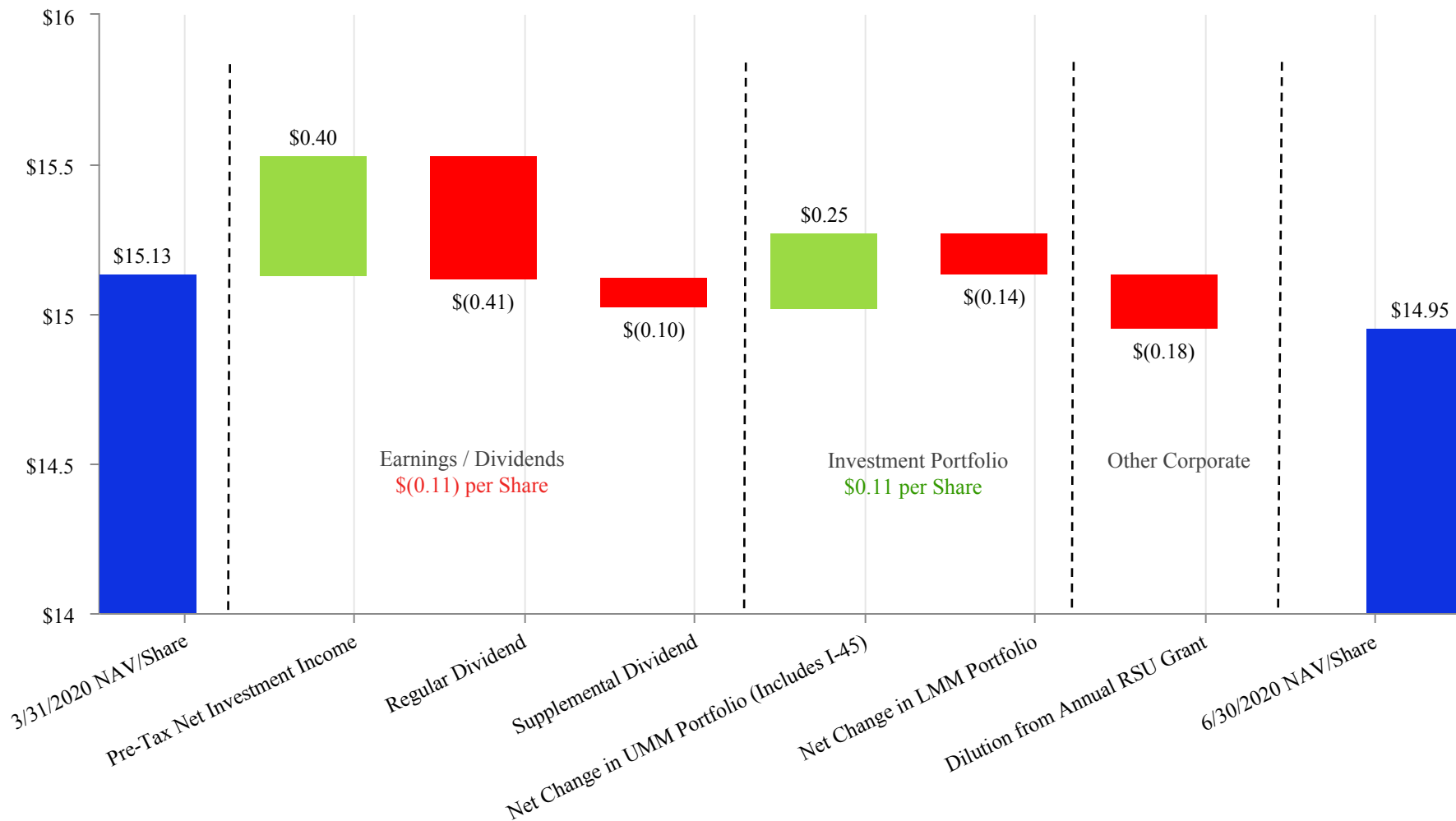


Note: FY16 includes only the quarters after the 2015 spin-off. Q1 FY21 is quarterly annualized.  
 (1) Operating expenses exclude interest expense

# Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/19	Quarter Ended 12/31/19	Quarter Ended 3/31/20	Quarter Ended 6/30/20
<b>Assets</b>				
Portfolio Investments	\$538,876	\$558,552	\$553,072	\$587,178
Cash & Cash Equivalents	30,019	22,966	13,744	14,986
Deferred Tax Asset	1,628	1,336	1,402	1,298
Other Assets	14,510	16,494	16,741	15,634
<b>Total Assets</b>	<b>\$585,033</b>	<b>\$599,348</b>	<b>\$584,959</b>	<b>\$619,096</b>
<b>Liabilities</b>				
December 2022 Notes	\$75,564	\$75,688	\$75,812	\$75,936
October 2024 Notes	63,585	73,393	73,484	73,575
Credit Facility	108,000	124,000	154,000	182,000
Other Liabilities	9,785	14,411	9,441	9,726
<b>Total Liabilities</b>	<b>\$256,934</b>	<b>\$287,492</b>	<b>\$312,737</b>	<b>\$341,237</b>
<b>Shareholders Equity</b>				
<b>Net Asset Value</b>	<b>\$328,099</b>	<b>\$311,856</b>	<b>\$272,222</b>	<b>\$277,859</b>
<b>Net Asset Value per Share</b>	<b>\$18.30</b>	<b>\$16.74</b>	<b>\$15.13</b>	<b>\$14.95</b>
<b>Debt to Equity</b>	<b>0.75x</b>	<b>0.88x</b>	<b>1.11x</b>	<b>1.19x</b>

# NAV per Share Bridge from Quarter Ended 3/31/2020

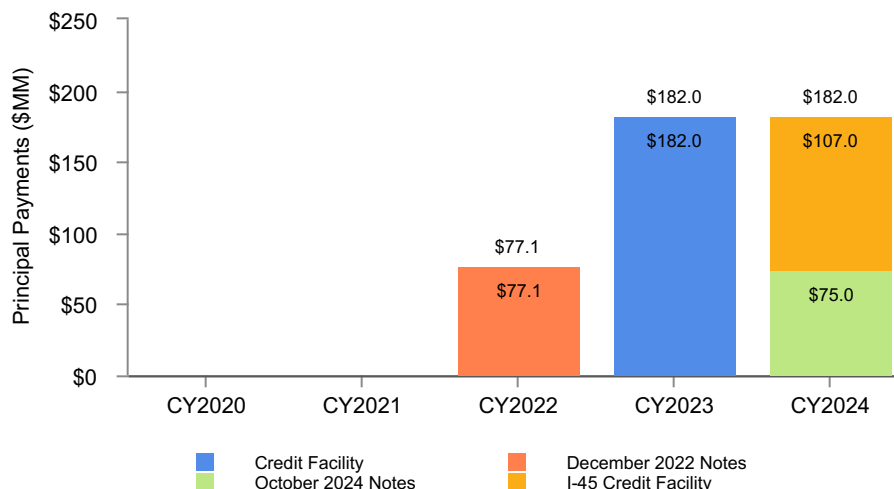


# Significant Unused Debt Capacity with Long-Term Duration

Earliest Debt Maturity occurs in December 2022

Facility	Total Commitments	Interest Rate	Maturity	Principal Drawn	Undrawn Commitment
Credit Facility <sup>(1)</sup>	\$325.0 MM	L + 2.50% subject to certain conditions	December 2023	\$182.0 MM	\$139.6 MM <sup>(2)</sup>
December 2022 Notes (NASDAQ: "CSWCL") <sup>(3)</sup>	\$77.1 MM	5.95%	December 2022	\$77.1 MM	N/A
October 2024 Notes <sup>(4)</sup>	\$75.0 MM	5.375%	October 2024	\$75.0 MM	N/A
I-45 Credit Facility <sup>(5)</sup>	\$150.0 MM	L + 2.25%	November 2024	\$107.0 MM	\$43.0 MM

Long-Term Debt Obligations (Calendar Year)



- (1) The Credit Facility has an accordion feature that allows for an increase in total commitments up to \$350 MM. Principal Drawn is based upon outstanding balances as of 06/30/20
- (2) Net of \$3.4 MM in letters of credit outstanding
- (3) Redeemable in whole or in part at CSWC's option at any time. Principal drawn is based upon outstanding balances as of 06/30/20
- (4) Redeemable in whole or in part at any time prior to July 1, 2024, at par plus a "make whole" premium, and thereafter at par
- (5) CSWC owns 80% of the equity and 50% of the voting rights of I-45 SLF LLC with a joint venture partner

# Portfolio Statistics

*Continuing to build a well performing credit portfolio*

<i>(In Thousands)</i>	Quarter Ended 9/30/19	Quarter Ended 12/31/19	Quarter Ended 3/31/20	Quarter Ended 6/30/20
<b>Portfolio Statistics</b>				
Fair Value of Debt Investments	\$387,168	\$456,095	\$474,333	\$487,195
Average Debt Investment Hold Size	\$11,062	\$11,695	\$11,569	\$11,330
Fair Value of Debt Investments as a % of Par	96%	95%	94%	95%
% of Investment Portfolio on Non-Accrual (at Fair Value)	2.6%	3.3%	3.3%	1.9%
Weighted Average Investment Rating <sup>(1)</sup>	2.0	2.0	2.1	2.1
Weighted Average Yield on Debt Investments	11.02%	11.26%	10.50%	10.08%
Total Fair Value of Portfolio Investments	\$538,876	\$558,552	\$553,072	\$587,178
Weighted Average Yield on all Portfolio Investments	11.10%	10.69%	10.63%	10.36%
Investment Mix (Debt vs. Equity) <sup>(2)(3)</sup>	81% / 19%	91% / 9%	92% / 8%	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. Weighted average investment rating calculated at cost

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

(3) At Fair Value

# 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 9/30/19	Quarter Ended 12/31/19	Quarter Ended 3/31/20	Quarter Ended 6/30/20
<b>Investment Income Breakdown</b>				
Cash Interest	\$10,573	\$10,430	\$11,421	\$11,008
Cash Dividends	3,576	2,703	2,150	1,957
PIK Income	191	801	741	1,120
Amortization of purchase discounts and fees	496	460	511	520
Management/Admin Fees	246	199	177	182
Prepayment Fees & Other Income	136	1,391	38	377
<b>Total Investment Income</b>	<b>\$15,218</b>	<b>\$15,984</b>	<b>\$15,038</b>	<b>\$15,164</b>
<b>Key Metrics</b>				
Cash Income as a % of Investment Income	95%	92%	92%	89%
% of Total Investment Income that is Recurring	98%	88%	98%	97%

# Key Financial Metrics

**Strong Pre-Tax Net Investment Income and Dividend yield driven by net portfolio growth and investment performance**

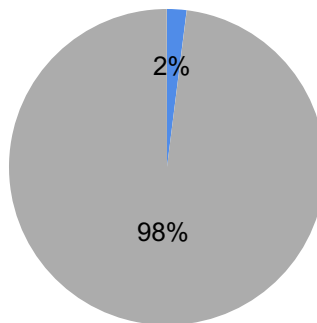
	Quarter Ended 9/30/19	Quarter Ended 12/31/19	Quarter Ended 3/31/20	Quarter Ended 6/30/20
<b>Key Financial Metrics</b>				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.42	\$0.44	\$0.40	\$0.40
Pre-Tax Net Investment Income Return on Equity (ROE) <sup>(1)</sup>	8.94%	9.51%	9.45%	10.44%
Realized Earnings Per Wtd Avg Diluted Share	\$0.40	\$2.65	\$0.37	\$0.07
Realized Earnings Return on Equity (ROE) <sup>(1)</sup>	8.60%	57.88%	8.81%	1.85%
Earnings Per Wtd Avg Diluted Share	\$0.15	\$(0.38)	\$(1.34)	\$0.49
Earnings Return on Equity (ROE) <sup>(1)</sup>	3.31%	(8.25)%	(32.07)%	12.93%
Regular Dividends per Share	\$0.40	\$0.40	\$0.41	\$0.41
Supplemental/Special Dividends per Share	\$0.10	\$0.85	\$0.10	\$0.10
Total Dividends per Share	\$0.50	\$1.25	\$0.51	\$0.51
Dividend Yield <sup>(2)</sup>	9.17%	24.03%	17.86%	15.13%

(1) Return on Equity is calculated as the quarterly annualized Pre-Tax NII, Realized Earnings, or Total Earnings, respectively, divided by equity at the end of the prior quarter

(2) Dividend Yield is calculated as the quarterly annualized Total Dividend divided by share price at quarter end

# Interest Rate Sensitivity

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



■ Fixed    ■ Floating

Change in Base Interest Rates	Illustrative Annual NII Change (\$'s)	Illustrative Annual NII Change (Per Share)
(50 bps)	1,204,357	0.06
(25 bps)	563,285	0.03
25 bps	(563,285)	(0.03)
50 bps	(1,124,518)	(0.06)
75 bps	(1,491,799)	(0.08)
100 bps	(1,150,332)	(0.06)

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

Note: Illustrative change in annual NII is based on a projection of CSWC's existing debt investments as of 06/30/20, adjusted only for changes in Base Interest Rate. Base Interest Rate used in this analysis is 3-Month LIBOR of 0.30% at 06/30/20. 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

Bowen S. Diehl

### Independent Directors

David R. Brooks  
Christine S. Battist  
T. Duane Morgan  
Jack D. Furst  
William R. Thomas

## 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

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## Investor Relations

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

## Securities Listing

Nasdaq: "CSWC" (Common Stock)

Nasdaq: "CSWCL" (December 2022 Notes)

## Transfer Agent

American Stock Transfer & Trust Company, LLC

800-937-5449

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

## Industry Analyst Coverage

Firm	Analyst	Contact Information
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B. Riley FBR	Tim Hayes	Direct: 703-312-1819
National Securities	Bryce Rowe	Direct: 212-417-8211
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