



Capital Southwest Corporation

Q2 2018 Earnings Presentation

November 7, 2017

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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 became a BDC in 1988
- Publicly-traded on Nasdaq under CSWC ticker
- Internally Managed BDC with RIC status 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
- 17 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$369 MM as of September 30, 2017
- Manage I-45 Senior Loan Fund (“SLF”) in partnership with Main Street Capital (Nasdaq: MAIN)

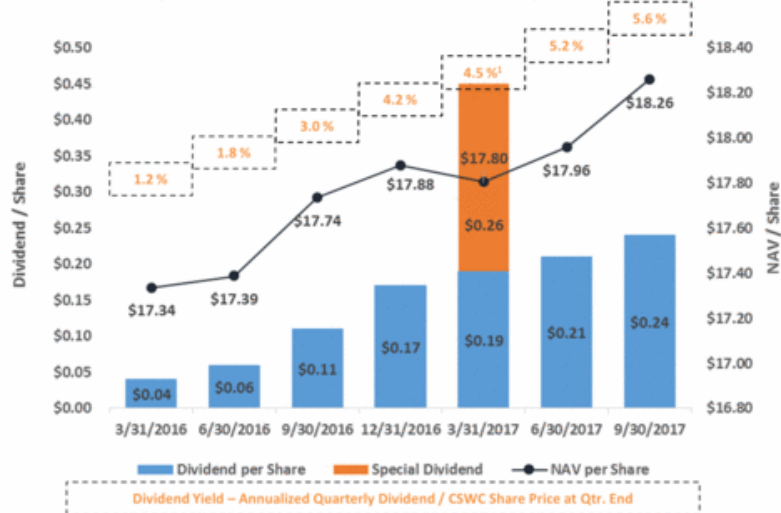
Q2 2018 Highlights

Financial Highlights

- Q2 2018 Pre-Tax Net Investment Income (“NII”) of \$4.1 MM or \$0.25 per share
- Paid Quarterly Dividend of \$0.24 per share
- NAV per share increased to \$18.26 from \$17.96
- Increased Investment Portfolio to \$322 MM from \$307 MM at fair value
 - ✓ \$32.5 MM committed in two new originations
 - ✓ \$16 MM proceeds received from three portfolio exits
- \$59 MM available on Credit Facility and \$33 MM in cash and cash equivalents as of quarter end
- Increased I-45 SLF investment portfolio to \$224 MM from \$210 MM
 - ✓ I-45 distributed \$2.2 MM dividend to CSWC
 - ✓ \$28 MM deployed in six new originations and five add-ons
 - ✓ \$12 MM proceeds received in six portfolio credit exits

Evolution of CSWC Generating Consistent Dividend and NAV Growth

- Over the past four quarters, CSWC has generated \$0.90 per share in Pre-Tax NII and paid out \$0.81 per share in regular dividends
 - ✓ LTM dividend coverage of 111% of Pre-Tax NII
- In addition, paid out a Special Dividend of \$0.26 in Q4 2017 generated primarily from realized gains earned over prior 12 months
- Dividend Yield increased to 5.6% at 9/30/17 from 1.2% at 3/31/16
- NAV has increased to \$18.26 per share at 9/30/17 from \$17.34 per share at 3/31/16



(1) The Special Dividend of \$0.26 is not included in the Dividend Yield calculation.

Two Pronged Investment Strategy

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 \$20 MM with hold sizes generally \$10 to \$15 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

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 to \$10 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

Q2 2018 Portfolio Originations

\$32.5 MM in new committed Lower Middle Market investments during the quarter (\$23 MM funded debt) at a weighted average debt YTM of 11.5%

Q2 2018 Portfolio Originations						
Name	Industry	Type	Market	Total Commitment (in \$000s)	Debt Coupon	Debt Yield to Maturity
Zenfolio, Inc. ⁽¹⁾	Business Services	Revolver / 1st Lien / Equity	LMM	\$19,900	L + 9.0%	11.2%
Alliance Sports Group	Consumer Products & Retail	Sub Debt / Equity	LMM	\$12,600	11.0%	12.0%
Total				\$32,500		11.5%

1. At close, \$2.0 MM Revolver and \$2.5 MM Delayed Draw Term Loan were unfunded

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

Q2 2018 Portfolio Prepayments

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

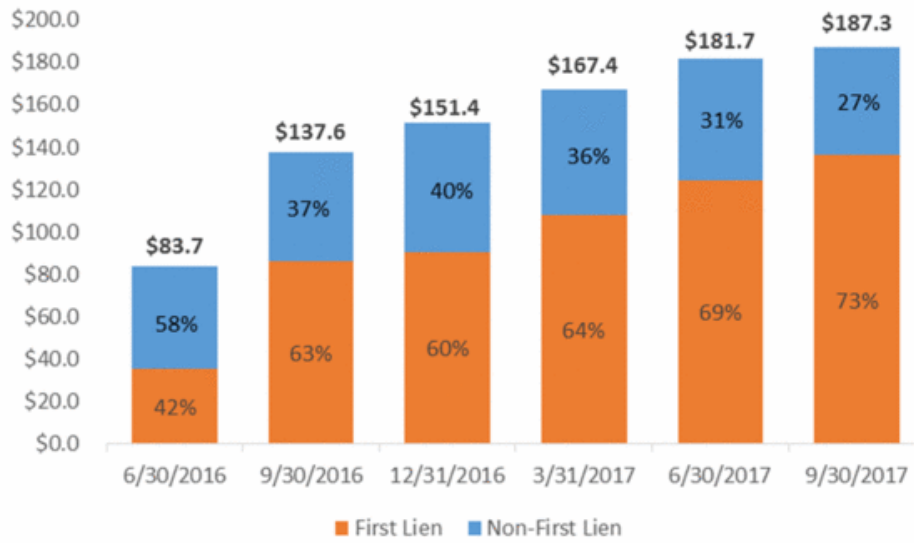
Q2 2018 Portfolio Exits						
Name	Industry	Type	Market	Proceeds (in \$000s)	Realized Gain (in \$000s)	IRR
Water Pik	Consumer Products & Retail	2nd Lien	UMM	\$4,254	\$77	12.1%
Cast & Crew	Media, Marketing, & Entertainment	2nd Lien	UMM	\$3,705	\$19	9.8%
Winzer Corporation	Distribution	Sub Debt	LMM	\$8,100	\$114	12.7%
Total / Wtd. Avg.				\$16,060	\$210	11.9%

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

Balance Sheet Credit Portfolio Mix

Credit portfolio has grown to \$187 MM and 73% first lien exposure at 9/30/17

Credit Portfolio (Fair Value)



Portfolio Statistics by Investment Strategy

Portfolio statistics illustrate CSWC's prudent investment underwriting

Investment Portfolio - Statistics at 9/30/17		
US\$ in 000s	Lower Middle Market ⁽¹⁾	Upper Middle Market
Number of Portfolio Companies	13	13
Total Cost	\$131,762	\$83,283
Total Fair Value	\$170,139	\$84,320
Average Hold Size (at Cost)	\$10,136	\$6,406
% First Lien Investments (at Cost)	63.5%	61.6%
% Second Lien Investments (at Cost)	0.0%	38.4%
% Subordinated Debt Investments (at Cost)	14.3%	0.0%
% Equity (at Cost)	22.2%	0.0%
Wtd. Avg. Yield ⁽²⁾⁽³⁾	11.4%	9.9%
Wtd. Avg. EBITDA of Issuer (\$MM's) ⁽³⁾	\$9.1	\$93.8
Wtd. Avg. Leverage through CSWC Security ⁽³⁾⁽⁴⁾	3.5x	3.7x

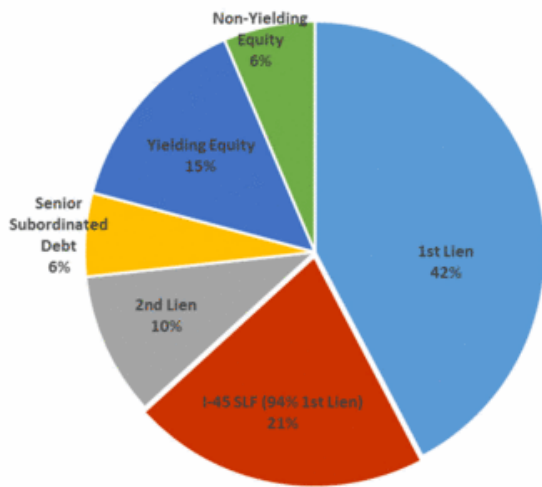
Note: All metrics above exclude the I-45 Senior Loan Fund

1. At September 30, 2017, we had equity ownership in approximately 84.6% 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, 2017, 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, 2017, 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

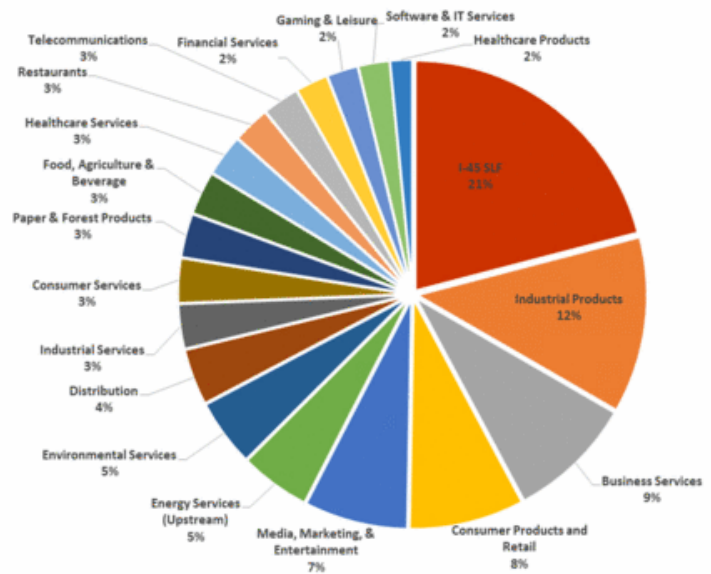
Portfolio Mix as of 9/30/17 at Fair Value

Current Portfolio of \$322 MM continues to be granular, diverse, and focused on income generating securities

Current Investment Portfolio (By Type)



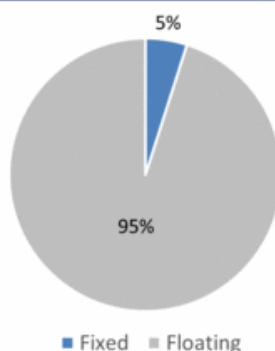
Current Investment Portfolio (By Industry)



Interest Rate Sensitivity

Debt Portfolio Exposure at 9/30/17 Well-Positioned for Changes to Base Interest Rates

Fixed vs. Floating Portfolio Composition ⁽¹⁾



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
(50bps)	(\$311,322)	(\$0.02)
50 bps	\$901,016	\$0.06
100bps	\$1,802,031	\$0.11
150bps	\$2,703,047	\$0.17
200bps	\$3,604,063	\$0.22

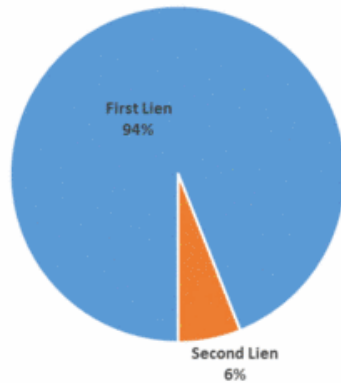
(1) Portfolio Composition includes I-45 assets pro rata as a % of CSWC's equity investment in the fund

Note: Illustrative change in NII is based on a projection of CSWC's existing debt investments as of 9/30/17, adjusted only for changes in Base Rates. The results of this analysis include the I-45 Senior Loan Fund, which is comprised of 100% floating rate assets and liabilities.

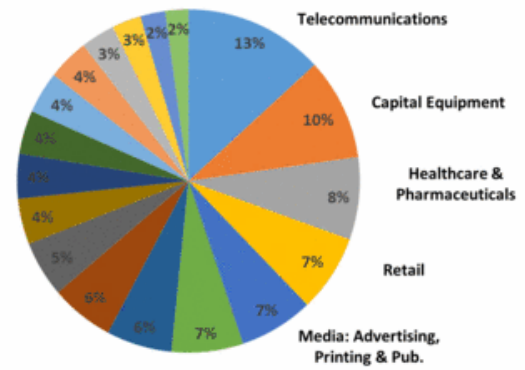
I-45 Portfolio Overview

I-45 portfolio grew to \$224 MM while average investment size remained at 2.2%

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
	12/31/2016	3/31/2017	6/30/2017	9/30/2017
Total Debt Investments at Fair Value	\$186,643	\$200,243	\$209,863	\$223,807
Number of Issuers	41	43	46	46
Wtd. Avg. Issuer EBITDA	\$88,970	\$81,417	\$80,909	\$79,009
Avg. Investment Size as a % of Portfolio	2.4%	2.3%	2.2%	2.2%
Wtd. Avg. Net Leverage on Investments ⁽¹⁾	3.2x	3.0x	3.5x	3.5x
Wtd. Avg. Yield	8.0%	7.9%	7.9%	7.7%
Wtd. Avg. Duration (Yrs)	4.4	4.3	4.9	4.8

(1) Through I-45 Security

Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 12/31/16	Quarter Ended 3/31/17	Quarter Ended 6/30/17	Quarter Ended 9/30/17
Investment Income				
Interest Income	\$3,611	\$4,113	\$4,520	\$5,282
Dividend Income	\$3,078	\$3,002	\$3,004	\$3,088
Fees and Other Income	\$176	\$611	\$200	\$139
Total Investment Income	\$6,865	\$7,726	\$7,724	\$8,509
Expenses				
Cash Compensation	\$1,476	\$1,704	\$1,638	\$1,606
Share Based Compensation	\$321	\$382	\$368	\$384
General & Administrative	\$1,144	\$1,360	\$1,228	\$1,364
Spin-off Related Expenses	\$172	\$172	\$172	\$173
Total Expenses (excluding Interest)	\$3,113	\$3,618	\$3,406	\$3,527
Interest Expense	\$343	\$543	\$738	\$911
Pre-Tax Net Investment Income	\$3,409	\$3,565	\$3,580	\$4,071
Taxes and Gain / (Loss)				
Income Tax Benefit (Expense)	(\$536)	(\$284)	(\$144)	(\$134)
Net realized gain (loss) on investments	\$72	\$4,098	\$624	\$210
Net increase (decrease) in unrealized appreciation of investments	\$4,940	(\$1,402)	\$1,384	\$4,496
Net increase (decrease) in net assets resulting from operations	\$7,885	\$5,977	\$5,444	\$8,643
Weighted Average Diluted Shares Outstanding	15,932	16,044	16,072	16,078
Pre-Tax Net Investment Income Per Dil. Weighted Average Share	\$0.21	\$0.22	\$0.22	\$0.25
Quarterly Dividends per Share	\$0.17	\$0.19	\$0.21	\$0.24

Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 12/31/2016	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017
Assets				
Portfolio Investments	\$267,131	\$286,880	\$306,582	\$321,860
Cash & Cash Equivalents	\$32,671	\$22,386	\$12,359	\$33,329
Deferred Tax Asset	\$1,940	\$2,017	\$1,858	\$1,846
Other Assets	\$10,592	\$14,469	\$10,391	\$11,635
Total Assets	\$312,334	\$325,752	\$331,190	\$368,670
Liabilities				
Credit Facility	\$15,000	\$25,000	\$25,000	\$56,000
Payable for Unsettled Transaction	\$0	\$0	\$9,263	\$0
Other Liabilities	\$11,890	\$15,680	\$9,500	\$20,156
Total Liabilities	\$26,890	\$40,680	\$43,763	\$76,156
Shareholders Equity				
Net Asset Value	\$285,444	\$285,072	\$287,427	\$292,514
NAV per Share	\$17.88	\$17.80	\$17.96	\$18.26
Debt to Equity	0.1x	0.1x	0.1x	0.2x
Shares Outstanding at Period End	15,965	16,011	16,006	16,019

Portfolio Statistics

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

	Quarter Ended 12/31/2016	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017
Portfolio Statistics				
Fair Value of Debt Investments	\$151,465	\$167,447	\$181,725	\$187,316
Average Debt Investment Hold Size	\$5,826	\$5,980	\$6,490	\$6,938
Fair Value of Debt Investments as a % of Par	98%	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⁾	1.9	1.9	2.0	2.0
Weighted Average Yield on Debt Investments	10.3%	10.3%	10.5%	10.7%
Total Fair Value of Portfolio Investments	\$267,131	\$286,880	\$306,582	\$321,860
Weighted Average Yield on all Portfolio Investments ⁽²⁾	10.7%	10.5%	10.4%	10.7%
Investment Mix (Debt vs. Equity) ^{(3) (4)}	73% / 27%	75% / 25%	76% / 24%	74% / 26%
Investment Mix (Yielding vs. Non-Yielding) ⁽⁴⁾	94% / 6%	95% / 5%	95% / 5%	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

Credit Portfolio Roll Forward

Credit portfolio has grown to \$187 MM at 9/30/17 from \$138 MM at 9/30/16

<i>(In Millions)</i>	12/31/2016	3/31/2017	6/30/2017	9/30/2017
Debt Investments at Fair Value				
Beginning Total Debt Portfolio (FV)	\$137.6	\$151.4	\$167.4	\$181.7
New Originations ⁽¹⁾	\$26.6	\$37.1	\$36.8	\$23.3
Repayments & Exits ⁽²⁾	(\$13.2)	(\$23.0)	(\$24.1)	(\$17.1)
Appreciation / (Depreciation)	\$0.4	\$1.9	\$1.6	(\$0.6)
Change in Debt Investments (FV)	\$13.8	\$16.0	\$14.3	\$5.6
Ending Total Debt Portfolio (FV)	\$151.4	\$167.4	\$181.7	\$187.3

1. Includes purchases of new investments, as well as discount accretion on existing investments.

2. Includes conversion of \$2.7 million debt security in legacy Titan Liner to equity in 12/31/16 quarter

Investment Income Detail

Constructing a portfolio of investments with recurring cash yield

- Recurring cash interest income continues to grow quarter over quarter
- Earned less non-recurring prepayment fees in Q2 2018 versus previous quarter
- PIK income remains a minor portion of NII

<i>(In Thousands)</i>	Quarter Ended 12/31/16	Quarter Ended 3/31/17	Quarter Ended 6/30/17	Quarter Ended 9/30/17
Investment Income Breakdown				
Cash Interest	\$3,490	\$3,913	\$4,264	\$5,082
Cash Dividends	\$3,078	\$3,002	\$3,004	\$3,018
PIK Income	\$0	\$63	\$73	\$70
Amortization of purchase discounts and fees	\$120	\$136	\$183	\$200
Management/Admin Fees	\$105	\$115	\$128	\$139
Prepayment Fees & Other Income	\$73	\$497	\$72	\$0
Total Investment Income	\$6,865	\$7,726	\$7,724	\$8,509
Key Metrics				
Cash Income as a % of Investment Income	98%	97%	97%	97%
% of Total Investment Income that is Recurring ⁽¹⁾	90%	90%	93%	97%

(1) Non-Recurring income principally made up of acceleration of unamortized OID and prepayment fees

Financial Highlights

	Quarter Ended 12/31/2016	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017
Financial Highlights				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.21	\$0.22	\$0.22	\$0.25
Pre-Tax Net Investment Income Return on Equity (ROE)	4.79%	4.99%	4.96%	5.55%
Realized Earnings Per Wtd Avg Diluted Share	\$0.18	\$0.46	\$0.25	\$0.26
Realized Earnings ROE	4.14%	10.33%	5.63%	5.65%
Earnings Per Wtd Avg Diluted Share	\$0.49	\$0.37	\$0.34	\$0.54
Earnings Return on Equity (ROE)	11.07%	8.37%	7.55%	11.77%
Quarterly Dividends Per Share	\$0.17	\$0.19	\$0.21	\$0.24
Special Dividends per Share	\$0.00	\$0.26	\$0.00	\$0.00
NAV Per Share	\$17.88	\$17.80	\$17.96	\$18.26

Corporate Information

<p>Board of Directors</p> <p>Inside Directors Bowen S. Diehl</p> <p>Independent Directors David R. Brooks Jack D. Furst T. Duane Morgan William R. Thomas John H. Wilson</p>	<p>Senior Management</p> <p>Bowen S. Diehl <i>President & Chief Executive Officer</i></p> <p>Michael S. Sarnier <i>Chief Financial Officer, Secretary & Treasurer</i></p>	<p>Fiscal Year End March 31</p>												
<p>Corporate Offices & Website</p> <p>5400 LBJ Freeway 13th Floor Dallas, TX 75240 http://www.capitalsouthwest.com</p>	<p>Investor Relations</p> <p>Michael S. Sarnier Capital Southwest 214-884-3829 msarnier@capitalsouthwest.com</p>	<p>Independent Auditor</p> <p>RSM US Chicago, IL</p>												
	<p>Securities Listing NASDAQ: CSWC</p>	<p>Corporate Counsel</p> <p>Jones Day / Eversheds Sutherland</p>												
		<p>Transfer Agent American Stock Transfer & Trust Company, LLC 800-937-5449 www.amstock.com</p>												
<p>Industry Analyst Coverage</p>														
<table border="1"> <thead> <tr> <th>Firm</th> <th>Analyst</th> <th>Contact Information</th> </tr> </thead> <tbody> <tr> <td>Robert W. Baird & Co.</td> <td>Bryce Rowe, CFA</td> <td>Direct: 804-447-8019</td> </tr> <tr> <td>National Securities Corporation</td> <td>Christopher R. Testa</td> <td>Direct: 212-417-7447</td> </tr> <tr> <td>Janney Montgomery Scott, LLC</td> <td>Mitchel Penn, CFA</td> <td>Direct: 410-583-5976</td> </tr> </tbody> </table>	Firm	Analyst	Contact Information	Robert W. Baird & Co.	Bryce Rowe, CFA	Direct: 804-447-8019	National Securities Corporation	Christopher R. Testa	Direct: 212-417-7447	Janney Montgomery Scott, LLC	Mitchel Penn, CFA	Direct: 410-583-5976		
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