

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

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**FORM 8-K**

**CURRENT REPORT**  
Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of report (Date of earliest event reported): **June 4, 2018**

**CAPITAL SOUTHWEST CORPORATION**

(Exact Name Of Registrant As Specified In Charter)

**Texas**  
(State or Other Jurisdiction of  
Incorporation)

**814-00061**  
(Commission File Number)

**75-1072796**  
(IRS Employer Identification No.)

**5400 Lyndon B. Johnson Freeway, Suite 1300**  
**Dallas, Texas 75240**  
(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: **(214) 238-5700**

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Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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**Item 2.02 Results of Operations and Financial Condition.**

On June 4, 2018, Capital Southwest Corporation (the “Company”) issued a press release, a copy of which has been furnished as Exhibit 99.1 hereto.

The information furnished in this Current Report on Form 8-K under Item 2.02, including Exhibit 99.1, shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1934, except as shall be expressly set forth by reference in a future filing.

**Item 7.01 Regulation FD Disclosure.**

The Company expects to hold a conference call with analysts and investors on June 5, 2018. A copy of the investor presentation slides to be used by the Company on such conference call is furnished as Exhibit 99.2 to this Form 8-K and incorporated herein by reference.

The information set forth under this Item 7.01, including Exhibit 99.2, is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, except as shall be expressly set forth by specific reference in such filing.

**Item 9.01 Financial Statements and Exhibits**

(d) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
<a href="#"><u>99.1</u></a>	<a href="#"><u>Press release issued by Capital Southwest Corporation on June 4, 2018</u></a>
<a href="#"><u>99.2</u></a>	<a href="#"><u>Investor presentation slides</u></a>

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Dated: June 4, 2018

By: /s/ Bowen S. Diehl  
Name: Bowen S. Diehl  
Title: Chief Executive Officer and  
President

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## Capital Southwest Announces Financial Results for Fiscal Year Ended March 31, 2018 and Announces Dividend of \$0.29 Per Share for the Quarter Ended June 30, 2018

*CSWC Increases Pre-Tax Net Investment Income to \$0.28 Per Share and Increases NAV to \$19.08 Per Share for the Quarter Ended March 31, 2018*

**Dallas, Texas – June 4, 2018** – 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 business, today announced its financial results for the fourth fiscal quarter and fiscal year ended March 31, 2018.

### **Fourth Quarter Fiscal Year 2018 Financial Highlights**

- Total Investment Portfolio: \$393.1 million
    - o No investments currently on non-accrual
    - o Total Credit Portfolio: \$239.1 million
      - o 82% 1<sup>st</sup> Lien Debt
      - o \$23.5 million in new committed credit investments
      - o \$6.9 million in prepayments and amortization in credit investments
    - o Total Equity Portfolio, excluding investment in I-45 SLF: \$86.9 million
      - o Increased by \$13.4 million from prior quarter
      - o \$3.2 million in new equity co-investments
    - o Total CSWC investment in I-45 SLF: \$67.1 million
      - o I-45 SLF portfolio had assets of \$233.4 million at quarter end
        - o Portfolio consists of 43 issuers: 94% 1<sup>st</sup> Lien Debt and 6% 2<sup>nd</sup> Lien Debt
      - o I-45 SLF paid a \$2.2 million quarterly dividend to CSWC, an effective yield of 13.0% on CSWC investment in I-45 SLF
  - Pre-Tax Net Investment Income of \$4.5 million, or \$0.28 per weighted average diluted share
  - Declared and Paid Quarterly Dividend of \$0.28 per share
  - Net Realized and Unrealized Portfolio Appreciation: \$10.8 million
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- Total Cash and Cash Equivalents: \$7.9 million
- Total Net Assets: \$308.3 million
- Net Asset Value (“NAV”) per Share: \$19.08
- Weighted Average Yield on Debt Investments: 11.46%

### **Fiscal Year 2018 Financial Highlights**

- Investment Portfolio:
  - o Total Credit Portfolio grew \$71.7 million, increasing to \$239.1 million from \$167.4 million
  - o Total Equity Portfolio, excluding investment in I-45 SLF, grew \$30.9 million, increasing to \$86.9 million from \$56.0 million, consisting of \$20.8 million in net unrealized appreciation, \$0.3 million in PIK income and \$9.8 million in new equity investments
  - o Total CSWC investment in I-45 SLF grew \$3.7 million, increasing to \$67.1 million from \$63.4 million
- Pre-Tax Net Investment Income of \$16.4 million for the fiscal year, or \$1.02 per weighted average diluted share versus \$0.61 per weighted average diluted share in the previous fiscal year
- Declared and Paid Total Dividends of \$0.99 per share versus \$0.79 in the prior fiscal year
- Net Realized and Unrealized Portfolio Appreciation of \$23.1 million compared to \$15.6 million in the prior fiscal year
- Increased net asset value per share to \$19.08 from \$17.80 at the beginning of the year

In commenting on the Company's results, Bowen Diehl, President and Chief Executive Officer, stated, “We are very proud of the progress we made in fiscal year 2018 growing our investment portfolio as well as building out the right side of our balance sheet. We were able to continue to grow our lower middle market lending platform, focusing on conservatively-levered 1<sup>st</sup> lien credits, many of which provided us the opportunity to make equity co-investments alongside our loans. We are also pleased to report that while we have continued to build out our credit portfolio, we currently have no non-accruals in our portfolio and only one credit we have placed on our internal watch list. Finally, we continue to make excellent progress on our capitalization strategy. Since the beginning of the fiscal year, we grew commitments in our ING led credit facility by \$110 million and raised \$57.5 million in fixed rate unsecured notes. As we move forward, we will continue to strategically and opportunistically raise capital to support our originations platform while being mindful of the interest rate environment and its impact on our net interest margin.”

### **Fourth Quarter Fiscal Year Investment Activities**

During the quarter ended March 31, 2018, the Company originated two new investments and two follow-on investments totaling \$26.7 million. The investment transactions which occurred during the quarter ended March 31, 2018 are summarized as follows:

**Prism Spectrum Holdings LLC, \$4.3 million 1<sup>st</sup> Lien Senior Secured Debt, \$2 million Revolver, \$1.7 million common stock:** Prism Spectrum Holdings LLC is a provider of environmental remediation services.

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**ITA Holdings Group, LLC (d/b/a Apollo MedFlight), \$9.5 million 1st Lien Senior Secured Debt, \$1.5 million Delayed Draw Term Loan, \$2 million Revolver, \$1.5 million LLC Equity Interest:** Apollo MedFlight is a regional provider of air and ground medical transport services.

**Digital River Inc., \$2 million add-on to 1<sup>st</sup> Lien Senior Secured Debt:** Digital River is a leading provider of mission-critical, end-to-end outsourced e-commerce solutions to tier 1 and tier 2 enterprises across many industry verticals.

**LGM Pharma LLC, \$2.2 million 1<sup>st</sup> Lien Senior Secured Debt (Delayed Draw Term Loan):** LGM Pharma is a value-added distributor of active pharmaceutical ingredients to the pharmaceutical and biotech markets.

During the quarter ended March 31, 2018, the Company received a full prepayment on one investment totaling \$5 million. The Company received a full prepayment on the following investment:

**Argon Medical Devices, 2<sup>nd</sup> Lien Senior Secured Debt:** Proceeds of \$5 million, generating a realized gain of \$0.1 million and an IRR of 13.0%.

#### **Fourth Quarter 2018 Operating Results**

For the quarter ended March 31, 2018, Capital Southwest reported total investment income of \$9.9 million, compared to \$9.0 million in the prior quarter. The increase in investment income was attributable to an increase in average debt investments outstanding.

For the quarter ended March 31, 2018, total operating expenses (excluding tax and interest expense) were \$3.4 million, which remained flat compared to \$3.4 million in the prior quarter.

For the quarter ended March 31, 2018, there was interest expense of \$2.0 million, compared to \$1.3 million in the prior quarter. The increase in interest expense was due to increased debt outstanding on the revolving credit facility during the quarter, as well as a full quarter's worth of interest expense on the 5.95% Notes due 2022 (the "December 2022 Notes"), which were issued in December 2017.

For the quarter ended March 31, 2018, total pre-tax net investment income was \$4.5 million, compared to \$4.3 million in the prior quarter.

For the quarter ended March 31, 2018, there was tax expense of \$0.3 million, compared to a \$0.4 million tax benefit in the prior quarter. The increase in tax expense is primarily due to the benefit taken in the prior quarter due to the tax reform legislation enacted on December 22, 2017.

During the quarter ended March 31, 2018, Capital Southwest recorded total realized and unrealized gains on investments of \$10.8 million, compared to \$5.6 million in the prior quarter. The net increase in net assets resulting from operations was \$15.0 million for the quarter, compared to \$10.2 million in the prior quarter.

The Company's NAV at March 31, 2018 was \$19.08 per share, as compared to \$18.44 at December 31, 2017. The increase in NAV from the prior quarter is primarily due to an increase in net realized and unrealized gains in the current quarter.

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### **Fiscal Year 2018 Operating Results**

For the year ended March 31, 2018, Capital Southwest reported total investment income of \$35.1 million, compared to \$23.5 million in the prior year. The increase in investment income was attributable primarily to an increase in average debt investments outstanding and an increase in dividends paid from I-45 SLF.

For the year ended March 31, 2018, total operating expenses (excluding interest expense) were \$13.8 million, compared to \$12.8 million in the prior year. The increase in operating expenses was due primarily to an increase in cash and share-based compensation due to the hiring of two new professionals during the fiscal year.

For the year ended March 31, 2018, there was interest expense of \$4.9 million, compared to \$1.0 million in the prior year. The increase in interest expense during the year was due to increased debt outstanding on the revolving credit facility, as well as the addition of the December 2022 Notes.

For the year ended March 31, 2018, total pre-tax net investment income was \$16.4 million, compared to \$9.7 million in the prior year.

For the year ended March 31, 2018, there was tax expense of \$0.2 million recorded, compared to \$1.8 million in the prior year. The decrease in tax expense versus the prior year was due primarily to the tax reform legislation enacted on December 22, 2017.

During the year ended March 31, 2018, Capital Southwest recorded total realized and unrealized gains on investments of \$23.1 million, compared to \$15.6 million in the prior year. The net increase in net assets resulting from operations was \$39.3 million for the year, compared to \$23.5 million in the prior year.

The Company's net asset value, or NAV, at March 31, 2018 was \$19.08 per share, as compared to \$17.80 at March 31, 2017. The increase in NAV from the prior year was primarily due to an increase in net realized and unrealized gains.

### **Liquidity and Capital Resources**

At March 31, 2018, Capital Southwest had unrestricted cash and money market balances of approximately \$7.9 million.

In November 2017, the Company entered into Amendment No. 1 (the "Amendment") to its revolving credit facility. The Amendment (1) increased the total borrowing capacity under the credit facility to \$180 million, (2) increased the credit facility's accordion feature to allow for an increase in total commitments of up to \$250 million, (3) reduced the interest rate on borrowings to LIBOR plus 3.00%, with a step-down to LIBOR plus 2.75% at the time the Company's net worth exceeds \$325 million, (4) reduced unused commitment fees to 0.50% to 1.0% per annum based on utilization, and (5) extended the revolving period that ended August 30, 2019 through November 16, 2020. Additionally, the final maturity of the credit facility was extended from August 30, 2020 to November 16, 2021. As of March 31, 2018, Capital Southwest had \$40 million in borrowings outstanding under the credit facility. Regulatory leverage at the end of the quarter was 0.3 to 1.

Subsequent to quarter end, the Company increased the total commitments to its revolving credit facility from \$180 million to \$210 million, with the addition of a new lender in April 2018 and an increase in commitment from an existing lender in May 2018. Both increases were executed under the accordion feature of the Credit Agreement.

In December 2017, the Company issued \$57.5 million in aggregate principal amount of 5.95% Notes due 2022. The total net proceeds from the offering of the December 2022 Notes was \$55.8 million. The December 2022

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Notes mature on December 15, 2022 and may be redeemed in whole or in part at any time, or from time to time, at the Company's option on or after December 15, 2019. The December 2022 Notes bear interest at a rate of 5.95% per year, payable quarterly on March 15, June 15, September 15 and December 15 of each year, beginning on March 15, 2018.

Additionally, I-45 SLF has total commitments outstanding of \$165 million from a group of four bank lenders in its Deutsche Bank led credit facility, which is scheduled to mature in July 2022. As of March 31, 2018, I-45 SLF had \$143 million in borrowings outstanding under its credit facility.

### **Share Repurchase Program**

On January 25, 2016, Capital Southwest announced that its Board of Directors (the "Board") 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 plan because it believes that the Company's common stock may be undervalued from time to time due to market volatility.

During the quarter ended March 31, 2018, the Company repurchased a total of 35,911 shares at an average price of \$16.37 per share, including commissions paid. The Company currently has approximately \$9.4 million available for additional repurchases under the program.

### **Declared Dividend of \$0.29 Per Share for Quarter Ended June 30, 2018**

On June 1, 2018, the Board declared a Quarterly Dividend of \$0.29 per share for the quarter ended June 30, 2018.

The Company's dividend will be payable as follows:

#### **June 30, 2018 Quarterly Dividend**

Amount Per Share:	\$0.29
Ex-Dividend Date:	June 25, 2018
Record Date:	June 26, 2018
Payment Date:	July 2, 2018

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.

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### **Annual Meeting of Shareholders**

The 2018 Annual Meeting of Shareholders of Capital Southwest Corporation will be held at the Hilton Dallas Lincoln Centre, 5410 LBJ Freeway, Dallas, Texas 75240 in the Madison Conference Room on Thursday, August 2, 2018, at 9:00 a.m. (Central Time) for shareholders of record as of the close of business on June 5, 2018.

### **Fourth Quarter and Fiscal Year 2018 Earnings Results Conference Call and Webcast**

Capital Southwest has scheduled a conference call on Tuesday, June 5, 2018, at 11:00 a.m. Eastern Time to discuss the fourth quarter and fiscal year 2018 financial results. You may access the call by dialing (866) 502-8274 and using the passcode 2969078 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](http://www.capitalsouthwest.com), or by using <http://edge.media-server.com/m6/p/e8nip6rt>.

A telephonic replay will be available through June 12, 2018 by dialing (855) 859-2056 and using the passcode 2969078. 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-K for the year ended March 31, 2018 to be filed with the Securities and Exchange Commission and Capital Southwest's Fourth Fiscal Quarter 2018 Earnings Presentation to be posted on the Investor Relations section of Capital Southwest's website at [www.capitalsouthwest.com](http://www.capitalsouthwest.com).

### **About Capital Southwest**

Capital Southwest Corporation (Nasdaq: CSWC) is a Dallas, Texas-based, internally managed business development company, with approximately \$308 million in net assets as of March 31, 2018. Capital Southwest is a middle market lending firm focused on supporting the acquisition and growth of middle market businesses with \$5 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 within the meaning of The Private Securities Litigation Reform Act of 1995 with respect to future dividends, market conditions, and 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 changes in the markets in which Capital Southwest invests, changes in the financial and lending markets, regulatory changes, tax treatment and general economic and business conditions.

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, 2018 and subsequent filings with the Securities and Exchange Commission for a more complete discussion of the risks and other factors

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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.

**Investor Relations Contact:**

Michael S. Sarner, Chief Financial Officer  
214-884-3829

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

	March 31, 2018	March 31, 2017
<b>Assets</b>		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: \$200,981 and \$172,437, respectively)	\$ 199,949	\$ 175,731
Affiliate investments (Cost: \$51,648 and \$5,925, respectively)	53,198	7,138
Control investments (Cost: \$82,768 and \$72,178, respectively)	139,948	104,011
Total investments (Cost: \$335,397 and \$250,540, respectively)	393,095	286,880
Cash and cash equivalents	7,907	22,386
Receivables:		
Dividends and interest	5,219	3,137
Escrow	119	545
Other	447	626
Income tax receivable	109	-
Deferred tax asset	2,050	2,017
Debt issuance costs (net of accumulated amortization of \$1,041 and \$366, respectively)	2,575	2,137
Other assets	5,969	8,024
Total assets	<u>\$ 417,490</u>	<u>\$ 325,752</u>
<b>Liabilities</b>		
Notes (Par value: \$57,500 and \$ -, respectively)	\$ 55,305	\$ -
Credit facility	40,000	25,000
Other liabilities	6,245	5,996
Dividends payable	4,525	7,191
Accrued restoration plan liability	2,937	2,170
Deferred income taxes	190	323
Total liabilities	<u>109,202</u>	<u>40,680</u>
<b>Commitments and contingencies (Note 12)</b>		
<b>Net Assets</b>		
Common stock, \$0.25 par value per share: authorized, 25,000,000 shares; issued, 18,501,298 shares at March 31, 2018 and 18,350,808 shares at March 31, 2017	4,625	4,588
Additional capital	260,713	261,472
Accumulated net investment income (loss)	6,147	(1,457)
Accumulated net realized gain	3,231	8,390
Unrealized appreciation on investments, net of income taxes	57,509	36,016
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	<u>308,288</u>	<u>285,072</u>
Total liabilities and net assets	<u>\$ 417,490</u>	<u>\$ 325,752</u>
Net asset value per share (16,161,786 shares outstanding at March 31, 2018 and 16,011,296 shares outstanding at March 31, 2017)	<u>\$ 19.08</u>	<u>\$ 17.80</u>

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

	Years Ended March 31,		
	2018	2017	2016
<b>Investment income</b>			
Interest income:			
Non-control/Non-affiliate investments	\$ 18,257	\$ 11,739	\$ 4,172
Affiliate investments	3,513	560	135
Control investments	82	116	237
Dividend income:			
Non-control/Non-affiliate investments	-	20	-
Affiliate investments	127	163	-
Control investments	12,254	9,726	3,489
Interest income from cash and cash equivalents	21	166	386
Fees and other income	872	984	741
Total investment income	<u>35,126</u>	<u>23,474</u>	<u>9,160</u>
Operating expenses:			
Compensation	7,013	6,330	7,310
Spin-off compensation plan	517	690	1,303
Share-based compensation	1,708	1,197	1,181
Interest	4,875	989	-
Professional fees	1,580	1,774	1,749
Net pension expense (benefit)	164	166	(99)
Spin-off professional fees	-	-	7,040
General and administrative	2,841	2,661	2,641
Total operating expenses	<u>18,698</u>	<u>13,807</u>	<u>21,125</u>
Income (loss) before taxes	16,428	9,667	(11,965)
Income tax expense (benefit)	195	1,779	(1,278)
<b>Net investment income (loss)</b>	<u>\$ 16,233</u>	<u>\$ 7,888</u>	<u>\$ (10,687)</u>
<b>Realized gain (loss)</b>			
Non-control/Non-affiliate investments	1,492	3,992	(9,575)
Affiliate investments	90	3,876	(1,458)
Control investments	-	28	231
<b>Total net realized gain (loss) on investments before income tax</b>	<u>1,582</u>	<u>7,896</u>	<u>(10,802)</u>
<b>Change in unrealized appreciation of investments</b>			
Non-control/Non-affiliate investments	(4,325)	(884)	5,585
Affiliate investments	337	184	2,860
Control investments	25,347	8,713	7,644
Income tax provision	133	(323)	-
<b>Total net change in unrealized appreciation of investments, net of tax</b>	<u>21,492</u>	<u>7,690</u>	<u>16,089</u>
<b>Net realized and unrealized gains on investments</b>	<u>\$ 23,074</u>	<u>\$ 15,586</u>	<u>\$ 5,287</u>
<b>Net increase (decrease) in net assets from operations</b>	<u>\$ 39,307</u>	<u>\$ 23,474</u>	<u>\$ (5,400)</u>
<b>Pre-tax net investment income (loss) per share - basic and diluted</b>	<u>\$ 1.02</u>	<u>\$ 0.61</u>	<u>\$ (0.76)</u>
<b>Net investment income (loss) per share - basic and diluted</b>	<u>\$ 1.01</u>	<u>\$ 0.50</u>	<u>\$ (0.68)</u>
<b>Net increase (decrease) in net assets from operations - basic and diluted</b>	<u>\$ 2.45</u>	<u>\$ 1.48</u>	<u>\$ (0.35)</u>
<b>Weighted average shares outstanding – basic</b>	<u>16,073,642</u>	<u>15,824,879</u>	<u>15,635,597</u>
<b>Weighted average shares outstanding – diluted</b>	<u>16,138,541</u>	<u>15,877,331</u>	<u>15,723,617</u>





*Capital Southwest Corporation*

## *Q4 2018 Earnings Presentation*

June 5, 2018

5400 Lyndon B. Johnson Freeway, Suite 1300 | Dallas, Texas 75240 | 214.238.5700 | [capitalsouthwest.com](http://capitalsouthwest.com)

## Forward-Looking Statements

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- This presentation contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 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. Sarnier***

***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 became a BDC in 1988
- Publicly-traded on Nasdaq: Common Stock (“CSWC”) and Unsecured Notes (“CSWCL”)
- 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
- 19 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$417 MM as of March 31, 2018
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (Nasdaq: “MAIN”)

## Fiscal Year 2018 Highlights

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- Earned Pre-Tax NII of \$1.02 per share in FY 2018 versus \$0.61 per share in FY 2017
- NAV grew to \$19.08 per share at 3/31/18 from \$17.80 per share at 3/31/17
- Total Return on Equity of 13.7% for FY 2018 versus 8.5% in FY 2017
- Total Dividends increased 25% to \$0.99 per share in FY 2018 versus \$0.79 per share in FY 2017
- Grew total debt commitments from both our Revolving Line of Credit and Unsecured Notes to \$267.5 MM from \$100 MM at the end of FY 2017
  - ✓ Raised \$57.5 MM of Unsecured Notes (Nasdaq: "CSWCL")
  - ✓ Increased commitments under the revolving line of credit to \$180 MM from \$100 MM, while amending terms and increasing the tenor
    - Subsequent to year end, further increased revolving line of credit to \$210 MM with the addition of a new lender in April 2018 and an increase in commitment from an existing lender in May 2018
- Grew Investment Portfolio outstanding \$106 MM or 37% from \$287 MM to \$393 MM
- Originated \$169MM in total commitments to 17 companies
- Exited 11 companies for \$61 MM proceeds generating a weighted average IRR of 12.2%

# Q4 2018 Highlights

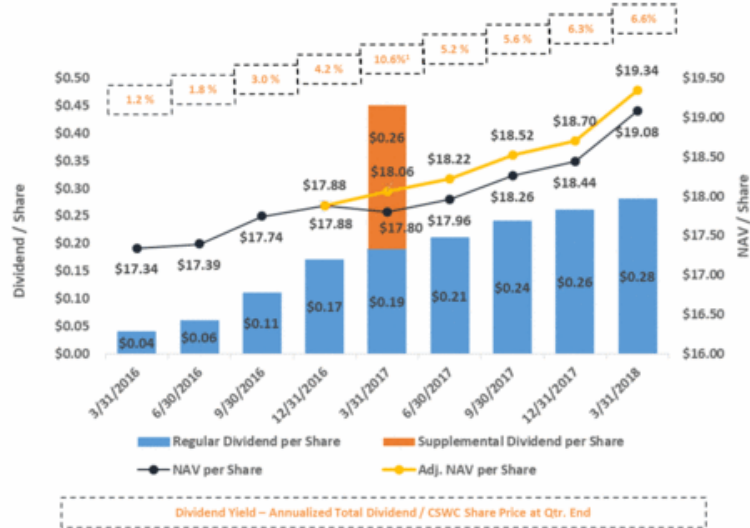
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## Financial Highlights

- Q4 2018 Pre-Tax Net Investment Income (“NII”) of \$4.5 MM or \$0.28 per share
  - ✓ Less than \$0.01 per share from combination of fees on prepayments and PIK income
- Declared and Paid Quarterly Dividend of \$0.28 per share
- Total Annualized Earnings Return on Equity of 20.1% for the quarter
- NAV per share increased to \$19.08 from \$18.44 in prior quarter
- Net Portfolio Growth of 7%, increasing portfolio assets to \$393 MM from \$367 MM in prior quarter
  - ✓ \$26.7 MM committed in two new originations and two add-ons
  - ✓ \$5 MM proceeds received from one portfolio exit
- Received \$2.2 MM dividend from I-45 SLF, an effective yield of 13.0% at fair value
- \$140 MM available on Credit Facility and \$7.9 MM in cash and cash equivalents as of quarter end
- Purchased 35,911 shares for an average price of \$16.37 per share under our Share Repurchase Program

# Track Record of Dividend and NAV Growth Continues

- In FY 2018, CSWC generated \$1.02 per share in Pre-Tax NII and paid out \$0.99 per share in regular dividends
  - ✓ LTM dividend coverage of 103% of Pre-Tax NII
  - ✓ Nine consecutive quarters of regular dividend per share growth
- In addition, paid out a Supplemental Dividend of \$0.26 in fiscal year Q4 2017 generated primarily from realized gains
- Dividend Yield increased to 6.6% at 3/31/18
- NAV increased to \$19.08 per share at 3/31/18 from \$17.80 per share at 3/31/17



(1) The Supplemental Dividend of \$0.26 is included in the Dividend Yield calculation  
 Note: Adjusted NAV per Share calculation adds back Supplemental Dividends only

# 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

## Steady Quarter of CSWC Originations

*\$26.7 MM in new committed investments during the quarter (\$20.3 MM funded at close) at a weighted average debt YTM of 11.2%*

Q4 2018 Portfolio Originations						
Name	Industry	Type	Market	Total Commitment (in \$000s)	Debt Spread	Debt Yield to Maturity
Prism Spectrum Holdings, LLC <sup>(1)</sup>	Environmental Services	RLOC / 1st Lien / Equity	LMM	\$8,017	9.50%	12.9%
ITA Holdings Group, LLC <sup>(2)</sup>	Transportation & Logistics	RLOC / 1st Lien / DDTL / Equity	LMM	\$14,500	8.5%	11.2%
Digital River Add-On	Software & IT Services	1st Lien	UMM	\$1,972	6.50%	7.8%
LGM Pharma Add-On <sup>(3)</sup>	Healthcare Products	1st Lien / DDTL	LMM	\$2,200	8.50%	10.7%
<b>Total</b>				<b>\$26,689</b>		<b>11.2%</b>

1. At close, \$2.0 MM Revolver was unfunded
2. At close, \$2.0 MM Revolver was unfunded and \$1.5 MM DDTL was unfunded
3. At close, \$900k DDTL was unfunded

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

## CSWC Portfolio Prepayments

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

- During the quarter, prepayments slowed as we received \$5.0 MM in proceeds from one Upper Middle Market exit, generating an IRR of 13.0%
- Cumulative IRR of 16.9% on 19 portfolio exits for \$122 MM in proceeds since launch of credit strategy in January 2015

Q4 2018 Portfolio Exits						
Name	Industry	Type	Market	Proceeds (in \$000s)	Realized Gain (in \$000s)	IRR
Argon Medical	Healthcare Products	2nd Lien	UMM	\$5,000	\$114	13.0%
<b>Total / Wtd. Avg.</b>				<b>\$5,000</b>	<b>\$114</b>	<b>13.0%</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 3/31/18		
US\$ in 000s	Lower Middle Market <sup>(1)</sup>	Upper Middle Market
Number of Portfolio Companies	19	10
Total Cost	\$204,331	\$66,266
Total Fair Value	\$259,116	\$66,866
Average Hold Size (at Cost)	\$10,754	\$6,627
% First Lien Investments (at Cost)	74.2%	65.2%
% Second Lien Investments (at Cost)	0.0%	34.8%
% Subordinated Debt Investments (at Cost)	9.3%	0.0%
% Equity (at Cost)	16.5%	0.0%
Wtd. Avg. Yield <sup>(2)(3)</sup>	11.9%	10.2%
Wtd. Avg. EBITDA of Issuer (\$MM's) <sup>(3)</sup>	\$8.6	\$86.2
Wtd. Avg. Leverage through CSWC Security <sup>(3)(4)</sup>	3.3x	4.3x

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

1. At March 31, 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 March 31, 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 March 31, 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 Portfolio

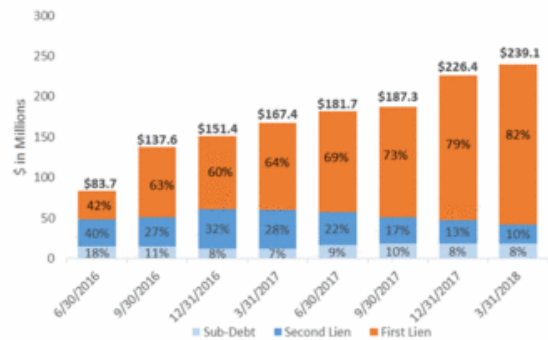
## CSWC Credit Portfolio continues to migrate to LMM and First Lien Investments

- LMM Investments have increased to 72% of the credit portfolio at 3/31/18 from 18% at 6/30/16
- First Lien Investments have increased to 82% of the credit portfolio at 3/31/18 from 42% at 6/30/16

**Robust LMM Portfolio Growth**



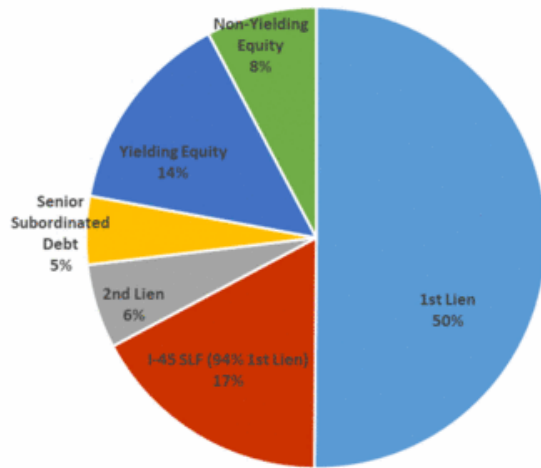
**Portfolio Heavily Weighted to First Lien**



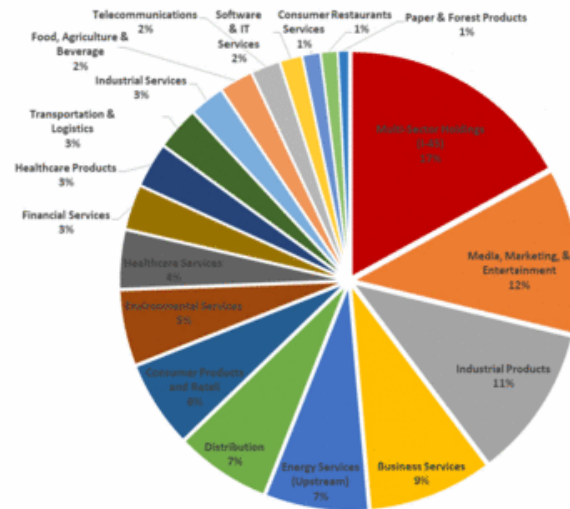
# CSWC Portfolio Mix as of 3/31/18 at Fair Value

Current Investment Portfolio of \$393 MM continues to be granular and diverse

Current Investment Portfolio (By Type)



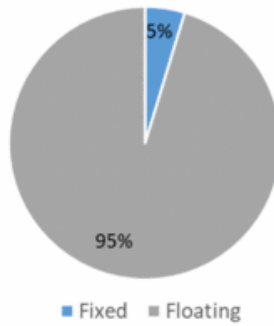
Current Investment Portfolio (By Industry)



# Interest Rate Sensitivity

## Debt Portfolio Exposure at 3/31/18 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)
50 bps	\$1,221,217	\$0.08
100bps	\$2,442,433	\$0.15
150bps	\$3,663,650	\$0.23
200bps	\$4,884,866	\$0.30

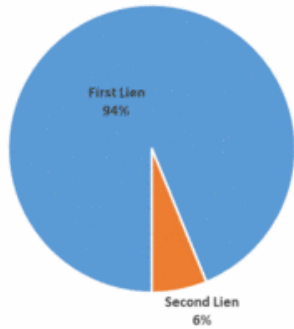
(1) Portfolio Composition includes I-45 assets pro rata as a % of CSWC's equity investment in the fund

Note: Illustrative change in NII is based on a projection of CSWC's existing debt investments as of 3/31/18, adjusted only for changes in Base Interest Rate. Base Interest Rate used in this analysis is 3-Month LIBOR of 2.31% at 3/31/18. The results of this analysis include the I-45 Senior Loan Fund, which is comprised of 100% floating rate assets and liabilities.

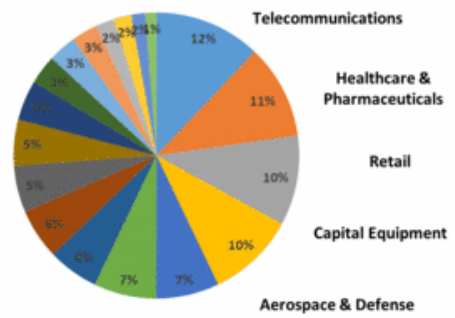
# I-45 Portfolio Overview

I-45 loan portfolio of \$221 MM is 94% first lien with average hold size of 2.3%

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
(In Thousands)	6/30/2017	9/30/2017	12/31/2017	3/31/2018
Total Debt Investments at Fair Value	\$209,863	\$223,807	\$217,964	\$220,807
Number of Issuers	46	46	44	43
Wtd. Avg. Issuer EBITDA	\$80,909	\$79,009	\$73,392	\$73,995
Avg. Investment Size as a % of Portfolio	2.2%	2.2%	2.3%	2.3%
Wtd. Avg. Net Leverage on Investments <sup>(1)</sup>	3.5x	3.5x	3.3x	3.6x
Wtd. Avg. Yield	7.9%	7.7%	7.4%	7.5%
Wtd. Avg. Duration (Yrs)	4.9	4.8	4.7	4.6

(1) Through I-45 Security

# Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 6/30/17	Quarter Ended 9/30/17	Quarter Ended 12/31/17	Quarter Ended 3/31/18
<b>Investment Income</b>				
Interest Income	\$4,520	\$5,282	\$5,566	\$6,575
Dividend Income	\$3,004	\$3,088	\$3,149	\$3,069
Fees and Other Income	\$200	\$139	\$304	\$230
<b>Total Investment Income</b>	<b>\$7,724</b>	<b>\$8,509</b>	<b>\$9,019</b>	<b>\$9,874</b>
<b>Expenses</b>				
Cash Compensation	\$1,638	\$1,606	\$1,885	\$1,884
Share Based Compensation	\$368	\$384	\$479	\$477
General & Administrative	\$1,228	\$1,364	\$907	\$1,086
Spin-off Related Expenses	\$172	\$173	\$172	\$0
<b>Total Expenses (excluding Interest)</b>	<b>\$3,406</b>	<b>\$3,527</b>	<b>\$3,443</b>	<b>\$3,447</b>
Interest Expense	\$738	\$911	\$1,275	\$1,951
<b>Pre-Tax Net Investment Income</b>	<b>\$3,580</b>	<b>\$4,071</b>	<b>\$4,301</b>	<b>\$4,476</b>
<b>Taxes and Gain / (Loss)</b>				
Income Tax Benefit (Expense)	(\$144)	(\$134)	\$362	(\$279)
Net realized gain (loss) on investments	\$624	\$210	\$617	\$131
Net increase (decrease) in unrealized appreciation of investments	\$1,384	\$4,496	\$4,963	\$10,649
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$5,444</b>	<b>\$8,643</b>	<b>\$10,243</b>	<b>\$14,977</b>
Weighted Average Diluted Shares Outstanding	16,072	16,078	16,176	16,139
<b>Pre-Tax Net Investment Income Per Dil. Weighted Average Share</b>	<b>\$0.22</b>	<b>\$0.25</b>	<b>\$0.27</b>	<b>\$0.28</b>
<b>Quarterly Dividends per Share</b>	<b>\$0.21</b>	<b>\$0.24</b>	<b>\$0.26</b>	<b>\$0.28</b>

## Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018
<b>Assets</b>				
Portfolio Investments	\$306,582	\$321,860	\$367,120	\$393,095
Cash & Cash Equivalents	\$12,359	\$33,329	\$20,527	\$7,907
Deferred Tax Asset	\$1,858	\$1,846	\$2,080	\$2,050
Other Assets	\$10,391	\$11,635	\$13,123	\$14,438
<b>Total Assets</b>	<b>\$331,190</b>	<b>\$368,670</b>	<b>\$402,850</b>	<b>\$417,490</b>
<b>Liabilities</b>				
December 2022 Notes	\$0	\$0	\$55,236	\$55,305
Credit Facility	\$25,000	\$56,000	\$35,000	\$40,000
Payable for Unsettled Transaction	\$9,263	\$0	\$0	\$0
Other Liabilities	\$9,500	\$20,156	\$14,084	\$13,897
<b>Total Liabilities</b>	<b>\$43,763</b>	<b>\$76,156</b>	<b>\$104,320</b>	<b>\$109,202</b>
<b>Shareholders Equity</b>				
<b>Net Asset Value</b>	<b>\$287,427</b>	<b>\$292,514</b>	<b>\$298,530</b>	<b>\$308,288</b>
<b>NAV per Share</b>	<b>\$17.96</b>	<b>\$18.26</b>	<b>\$18.44</b>	<b>\$19.08</b>
Debt to Equity	0.09x	0.19x	0.30x	0.31x
Shares Outstanding at Period End	16,006	16,019	16,187	16,162

# Portfolio Statistics

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

(In Thousands)	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018
<b>Portfolio Statistics</b>				
Fair Value of Debt Investments	\$181,725	\$187,316	\$226,441	\$239,122
Average Debt Investment Hold Size	\$7,269	\$7,805	\$8,709	\$9,197
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	10.51%	10.71%	10.95%	11.46%
Total Fair Value of Portfolio Investments	\$306,582	\$321,860	\$367,120	\$393,095
Weighted Average Yield on all Portfolio Investments <sup>(2)</sup>	10.43%	10.65%	10.55%	10.48%
Investment Mix (Debt vs. Equity) <sup>(3) (4)</sup>	76% / 24%	74% / 26%	75% / 25%	73% / 27%
Investment Mix (Yielding vs. Non-Yielding) <sup>(4)</sup>	95% / 5%	94% / 6%	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 <sup>(1)</sup>	\$210.0 MM	L + 3.00% with Step-Down	November 2021	\$40.0 MM <sup>(1)</sup>
December 2022 Notes ("NASDAQ: CSWCL")	\$57.5 MM	5.95%	December 2022	\$57.5 MM



(1) As of March 31, 2018, CSWC's credit facility had \$180.0 MM in total commitments with \$40.0 MM drawn. The facility was increased subsequent to quarter end to \$210.0 MM with the addition of a new lender in April 2018 and an increase in commitments from an existing lender in May 2018. The facility has an accordion feature which allows for an increase in total commitments up to \$250.0 MM.

(2) Based upon outstanding balances as of March 31, 2018

(3) Issued in December 2017; redeemable at CSWC's option beginning December 2019



## Investment Income Detail

### Constructing a portfolio of investments with recurring cash yield

- PIK and OID income remain a minor portion of Investment Income
- Lower non-recurring prepayment fees in Q4 2018 versus previous quarter

<i>(In Thousands)</i>	Quarter Ended 6/30/17	Quarter Ended 9/30/17	Quarter Ended 12/31/17	Quarter Ended 3/31/18
<b>Investment Income Breakdown</b>				
Cash Interest	\$4,264	\$5,082	\$5,357	\$6,300
Cash Dividends	\$3,004	\$3,018	\$3,076	\$2,990
PIK Income	\$73	\$70	\$72	\$91
Amortization of purchase discounts and fees	\$183	\$200	\$209	\$264
Management/Admin Fees	\$128	\$139	\$146	\$184
Other Fees (non-recurring)	\$3	\$0	\$0	\$0
Prepayment Fees & Other Income	\$72	\$0	\$159	\$45
<b>Total Investment Income</b>	<b>\$7,724</b>	<b>\$8,509</b>	<b>\$9,019</b>	<b>\$9,874</b>
<b>Key Metrics</b>				
Cash Income as a % of Investment Income	97%	97%	97%	96%
% of Total Investment Income that is Recurring <sup>(1)</sup>	93%	97%	95%	98%

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

# Financial Highlights

*Strong Earnings ROE as Portfolio continues to appreciate*

	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017	Quarter Ended 3/31/2018
<b>Financial Highlights</b>				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.22	\$0.25	\$0.27	\$0.28
Annualized Pre-Tax Net Investment Income Return on Equity (ROE)	5.00%	5.64%	5.82%	6.02%
Realized Earnings Per Wtd Avg Diluted Share	\$0.25	\$0.26	\$0.33	\$0.27
Annualized Realized Earnings ROE	5.68%	5.75%	7.15%	5.82%
Earnings Per Wtd Avg Diluted Share	\$0.34	\$0.54	\$0.63	\$0.93
Annualized Earnings Return on Equity (ROE)	7.61%	11.97%	13.87%	20.13%
Quarterly Dividends Per Share	\$0.21	\$0.24	\$0.26	\$0.28
NAV Per Share	\$17.96	\$18.26	\$18.44	\$19.08

# Corporate Information

<p><b>Board of Directors</b></p> <p><b>Inside Directors</b> Bowen S. Diehl</p> <p><b>Independent Directors</b> David R. Brooks Jack D. Furst T. Duane Morgan William R. Thomas John H. Wilson</p>	<p><b>Senior Management</b></p> <p>Bowen S. Diehl <i>President &amp; Chief Executive Officer</i></p> <p>Michael S. Sarner <i>Chief Financial Officer, Secretary &amp; Treasurer</i></p>	<p><b>Fiscal Year End</b></p> <p>March 31</p>
<p><b>Corporate Offices &amp; Website</b></p> <p>5400 LBJ Freeway 13th Floor Dallas, TX 75240 <a href="http://www.capitalsouthwest.com">http://www.capitalsouthwest.com</a></p>	<p><b>Investor Relations</b></p> <p>Michael S. Sarner Capital Southwest 214-884-3829 <a href="mailto:msarner@capitalsouthwest.com">msarner@capitalsouthwest.com</a></p>	<p><b>Independent Auditor</b></p> <p>RSM US Chicago, IL</p>
	<p><b>Securities Listing</b></p> <p>Nasdaq: "CSWC" (Common Stock) Nasdaq: "CSWCL" (Notes)</p>	<p><b>Corporate Counsel</b></p> <p>Jones Day / Eversheds Sutherland</p>
		<p><b>Transfer Agent</b></p> <p>American Stock Transfer &amp; Trust Company, LLC 800-937-5449 <a href="http://www.amstock.com">www.amstock.com</a></p>

Industry Analyst Coverage		
Firm	Analyst	Contact Information
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