



*Capital Southwest Corporation*

## *Q4 2018 Earnings Presentation*

June 5, 2018

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## 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. 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 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

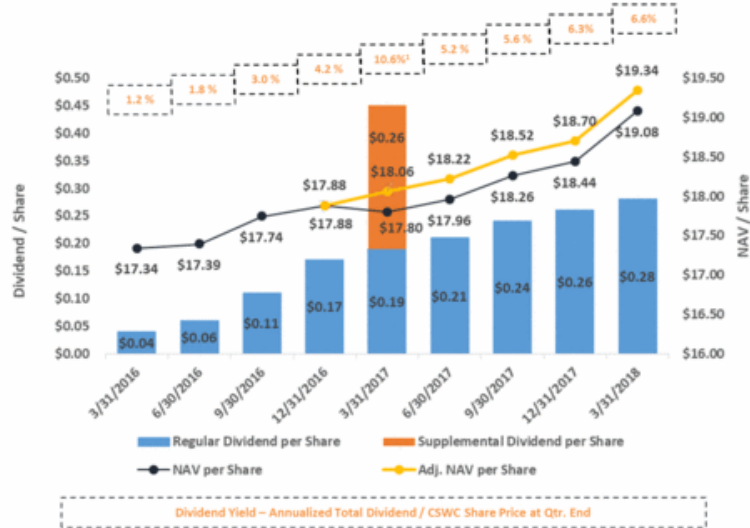
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## Financial Highlights

- 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

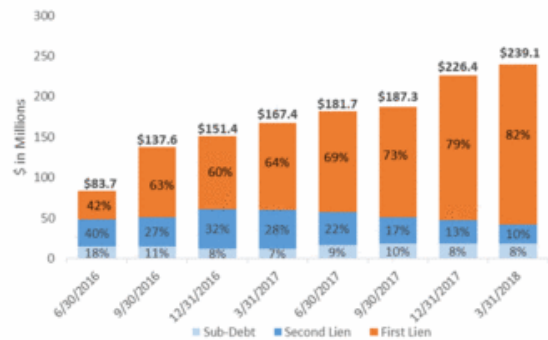
## CSWC Credit Portfolio continues to migrate to LMM and First Lien Investments

- 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**



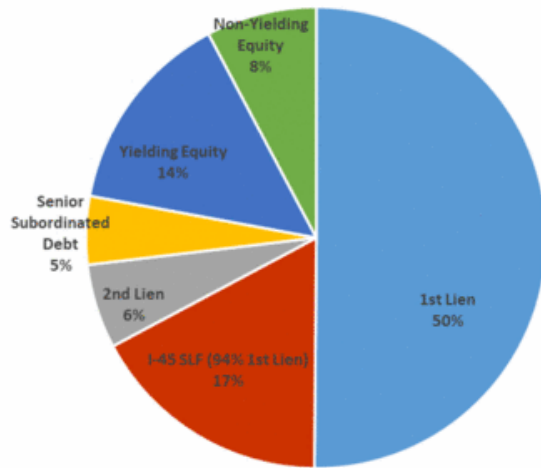
**Portfolio Heavily Weighted to First Lien**



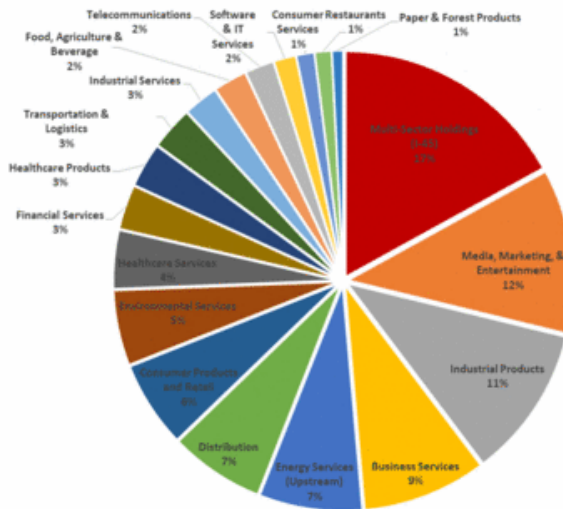
# CSWC Portfolio Mix as of 3/31/18 at Fair Value

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

Current Investment Portfolio (By Type)



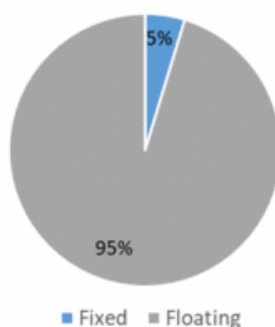
Current Investment Portfolio (By Industry)



# 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

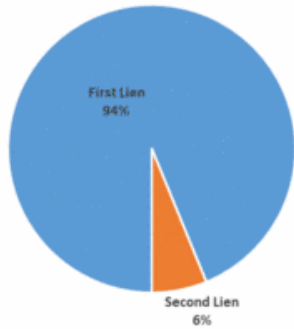
(1) Portfolio Composition includes I-45 assets pro rata as a % of CSWC's equity investment in the fund

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.

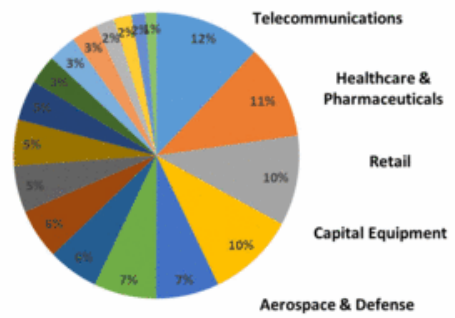
# I-45 Portfolio Overview

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

<i>(In Thousands)</i>	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
National Securities Corporation Ladenburg Thalmann Janney Montgomery Scott, LLC	Christopher R. Testa Mickey M. Schleien, CFA Mitchel Penn, CFA	Direct: 212-417-7447 Direct: 305-572-4131 Direct: 410-583-5976