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# Capital Southwest Corporation

## Investor Presentation

December 2017

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## Forward-Looking Statements

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  expenses of the Company carefully before investing in securities of the Company. The Company's
  prospectus and other SEC filings contain this and other information.



# CSWC Senior Management



#### Bowen S. Diehl

- Joined Capital Southwest in March 2014
- Former Senior Investment Professional at American Capital (2001 2014)
- Co-Head of Sponsor Finance Group at American Capital (2007 2014)
- · 15 years of investing experience in middle market debt and equity
- BE Vanderbilt University. MBA UT Austin
- · Lives in Dallas with wife and three children



#### Michael S. Sarner

- Joined Capital Southwest in June 2015
- Former SVP Treasurer at American Capital (2000 2015)
- · 20 years of financial, treasury and BDC experience
- BA James Madison. MBA George Washington University
- Certified Public Accountant
- · Lives in Dallas with wife and three children



## CSWC Company Overview

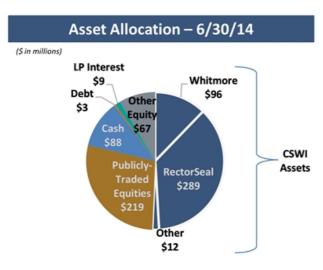
CSWC is a middle-market lending firm focused on supporting the acquisition and growth of middle-market companies across the capital structure

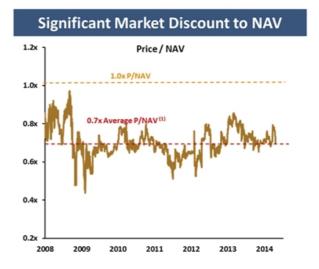
- CSWC was formed in 1961, and became a BDC in 1988
- Publicly-traded on Nasdaq under CSWC ticker
- Internally Managed BDC with RIC status for tax purposes
- 18 employees based in Dallas, Texas
- Relaunched CSWC as a middle market lending firm in January 2015
  - ✓ Implemented credit strategy that fits extensive track record of investment team
  - ✓ Liquidated majority of legacy equity assets
  - ✓ Completed tax free spin off of wholly-owned industrial assets in September 2015
- Total Balance Sheet Assets of \$369 MM as of September 30, 2017
- Manage I-45 Senior Loan Fund ("I-45 SLF") in partnership with Main Street Capital (Nasdaq: MAIN)



## Pre-2015 Challenges

- Until spin off announcement, CSWC traded at a significant discount to NAV
  - ✓ Virtually 100% of CSWC's portfolio was invested in equity
  - √There was significant concentration in two industrial companies, with very large embedded capital gains
  - ✓ Did not pay meaningful dividend

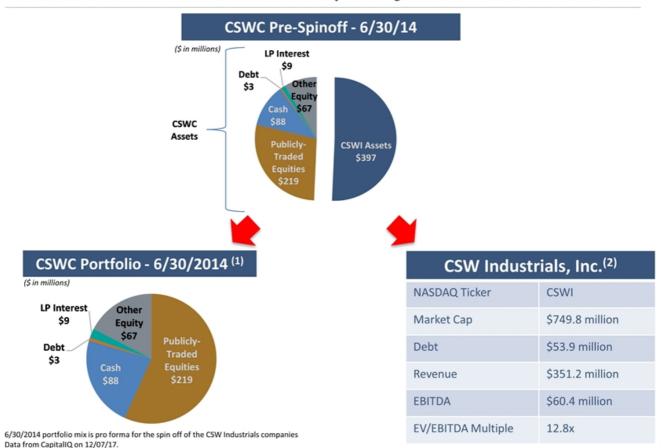




(1) Average P/NAV from 1/2/08 to 9/30/14



# Solution: 2015 Tax Free Spin of Industrial Assets





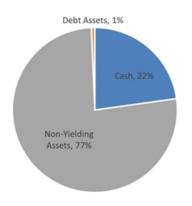
## Portfolio Rotation to Income Generation

Since June 2014, CSWC has transformed its investment portfolio increasing income earning assets from 1% of the investable portfolio to 85%

- Exited 22 legacy portfolio equity investments, generating \$228 MM in proceeds
- Invested \$275 MM in 38 middle-market credit investments on balance sheet
- Invested \$353 MM in 77 middle-market credits within I-45 Senior Loan Fund ("I-45 SLF")

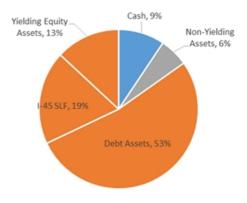
### 6/30/2014 (excl. CSWI Companies)

1% of Total Assets Generating Recurring Income



### 9/30/2017 Investable Assets

85% of Total Assets Generating Recurring Income





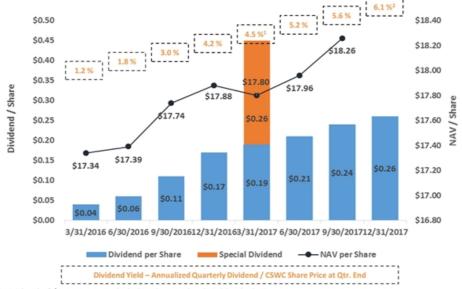
## Key Highlights since launch of Credit Strategy

- Built investment and finance teams made up of people with long track records of investing in the middle market
  - ✓ Of the 18 employees, 15 joined CSWC since launching the middle market lending strategy
- Invested \$275 MM in 38 middle-market credit assets on balance sheet
  - ✓ Credit portfolio consists of \$187 MM investments at fair value (73% 1st Lien)
  - ✓ No non-accruals, debt marked at 99% of par
  - ✓ Generated 21% weighted average IRR on 14 exits
- Invested \$353 MM in 77 middle-market credits assets within the I-45 SLF
  - ✓ I-45 portfolio consists of \$224 MM investments at fair value (94% 1st Lien)
  - ✓ No non-accruals, debt marked at 99% of par
  - ✓ Generated 12.5% weighted average IRR on 28 exits



## Evolution of CSWC Generating Consistent Dividend and NAV Growth

- Dividend Yield has increased as credit portfolio grows (6.1% at 12/7/17 vs. 1.2% at 3/31/16)
- NAV growth is key to driving value for all stakeholders (\$18.26 per share at 9/30/17 vs \$17.34 per share at 3/31/16)
- Over the past seven quarters ending 9/30/17, CSWC has generated \$1.11 per share in Pre-Tax NII and paid out \$1.02 per share in regular dividends
  - ✓ Dividend coverage of 109% of Pre-Tax NII



- (1) The Special Dividend of \$0.26 is not included in the Dividend Yield calculation.
- (2) Based on \$17.09 closing price as of December 7, 2017 and a \$0.26 quarterly dividend declared for the quarter ended 12/31/17.



## 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



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



## 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)



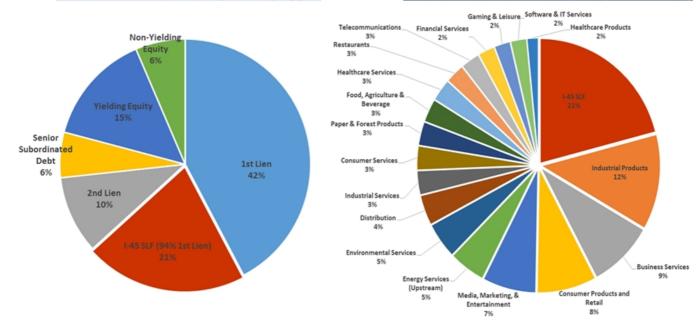


# Portfolio Mix as of 9/30/17 at Fair Value

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)**





## Senior Loan Fund ("I-45")

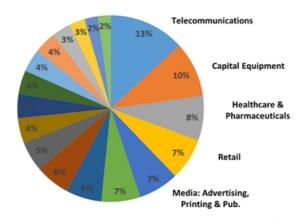
- Joint Venture with Main Street Capital Corporation (NASDAQ: MAIN)
- Fund invests in predominately Upper Middle Market first lien loans
- Total target fund size of \$250 MM
  - ✓ Total Equity Commitment of \$85 MM from CSWC (80%) and MAIN (20%)
  - ✓ Total Debt Commitment of \$165 MM through Credit Facility led by Deutsche Bank
- Recurring Run-rate ROE to CSWC of approximately 13.0%, paid quarterly
- CSWC and MAIN jointly control Board of Managers
  - ✓ Capital raising, fund tracking, monitoring, and financial reporting are managed by CSWC
  - ✓ Origination capabilities are a joint effort between CSWC and MAIN
  - ✓ All credit decisions are joint/unanimous between CSWC and MAIN
- I-45 fully disclosed in CSWC financials, but "off-balance sheet" for purposes of 1:1 BDC Leverage Test



# I-45 Portfolio Remains Granular and Diverse

## \$224 MM in Portfolio Assets generate attractive risk adjusted returns

### 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	

<sup>&</sup>lt;sup>1</sup> Through I-45 Security



# CSWC Capitalization

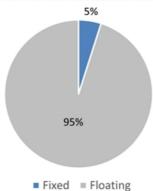
- \$180 MM Credit Facility: led by ING (eight banks)
  - ✓ Includes accordion up to \$250 MM
  - √\$56 MM drawn as of 9/30/2017
  - ✓ Matures November 2021; L + 300 with step-down to L + 275
- Balance Sheet Cash: Approximately \$33 MM of cash and cash equivalents as of 9/30/2017
- Regulatory Leverage (Debt/Equity): 0.2x to 1.0x
  - ✓ Well below the 1:1 regulatory limitation
- \$165 MM I-45 Credit Facility: led by DB (four banks)
  - ✓\$139 MM drawn as of 9/30/17
  - ✓ Matures July 2022; L + 240



# 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 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.



## Advantages of the Internally Managed BDC Structure

- · Management interests are directly aligned with all Stakeholders
  - ✓ Both the asset manager and the managed investment assets are consolidated and therefore all stakeholders have an interest in both entities
  - ✓ Management owns equity directly in the BDC
  - ✓ All management activities flow to the benefit of all stakeholders
- Operating expenses of an internally managed BDC typically offer a lower fee structure than an externally managed BDC (Opex as a % of Assets)
  - ✓ Average of 2.2% for Internally Managed BDCs vs. 3.6% for similarly sized Externally Managed BDCs
- CSWC continues to thoughtfully manage its expense structure to offer a lower fee structure (Opex as a % of Assets)
  - ✓ Senior personnel and corporate infrastructure already in place
- Historically, performing Internally Managed BDCs have traded at 0.5x price to book premiums versus Externally Managed peers



# Appendix A: Investment and Finance Teams



# Investment Team with Strong Credit Experience

• CSWC has assembled an investment team made up of individuals with extensive track records in middle market lending

Name	Title	Years Experience	Year Joined CSWC	Relevant Experience
Bowen Diehl	Chief Executive Officer / CIO	22	2014	<ul> <li>Managing Director and Co-Head of Sponsor Finance at American Capital</li> <li>Merrill Lynch Investment Banking</li> <li>Chase Securities Investment Banking</li> </ul>
Douglas Kelley	Managing Director	20	2015	Managing Director of Sponsor Finance at American Capital     Investment banking at J.P. Morgan, The Beacon Group, Credit Suisse First Boston
Josh Weinstein	Managing Director	17	2015	<ul> <li>Principal at H.I.G. WhiteHorse</li> <li>VP at WhiteHorse Capital Partners</li> <li>Analyst at Morgan Stanley and Citigroup</li> </ul>
Bill Ashbaugh	Managing Director Business Development	40	2001	Managing Director in Corporate Finance at Hoak, Principal and Southwest Securities     VP of Corporate Finance at Rauscher Pierce Refsnes (now RBC Dain Rauscher)
Curtis Harrison	Principal	14	2017	VP at Goldman Sachs Specialty Lending Group (GSSLG)     MD at Kelly & Cornell, LLC
Ryan Kelly	Vice President	10	2010	- Analyst at Houlihan Lokey
Matt Darrah	Vice President	14	2016	CFO of Rocket Learning     PM at Perot Investments (family office credit strategy)     Associate at American Capital     Analyst at Citigroup and Challenger Capital
Rachael Bazan	Associate	4	2016	- Analyst at ING
Spencer Klein	Associate	4	2015	- Analyst at J.P. Morgan
Michael Knapp	Associate	5	2015	- Analyst at Jefferies



# Appendix B: Underwriting & Portfolio Management



# Disciplined Investment Process: Investment Criteria

Experienced Management Team with Meaningful Equity Ownership	<ul> <li>Relevant experience and track record of success</li> <li>Significant economic interest in the future success of the company</li> </ul>
Sustainable Business Model	<ul> <li>Differentiated product and/or service that gives company a sustainable reason to exist</li> <li>Leverageable cash flow with ability to maintain or grow margins</li> </ul>
Strong Competitive Position	<ul> <li>Market leader in its business segments</li> <li>Quantifiable competitive advantage versus their competitors with barriers to entry</li> </ul>
Diversification of Customers and Suppliers	<ul> <li>Inability for any one customer to significantly affect the company's financial performance and ability to service debt</li> <li>Sustainability of supply and cost of inputs</li> </ul>
Ability of Capital Structure to Sustain Economic Cycles	<ul> <li>Capital structure appropriate for business model and industry</li> <li>Downside scenario modeling proves ability to sustain economic cycles while servicing debt with leverage inside enterprise value</li> </ul>
Significant Equity Value Supporting Debt	Significant underlying equity value to support debt in capital structure



## Disciplined Process: Focus on Capital Preservation

#### Sourcing

#### Initial Evaluati<u>on</u>

### Due Diligence & Underwriting

### Documentation & Closing

### Portfolio Management

- Extensive network of long standing private equity, intermediary, and co-lender relationships
- Team effort led by senior members
- Systematic CRMdriven relationship tracking
- Emphasis on partnership-centric approach
- Structural and size flexibility important to maintain relevance to sourcing network

- Review deal tearsheets outlining investment theses and risks on weekly basis
- Quick, thoughtful financing read to deal source
- Rigorous analysis of opportunity with emphasis on downside scenario
- Meet with management
- Present credit case to Investment Committee (IC); 12-20 page memo
- Advance detailed term sheet

- Continuous testing of investment theses and risk mitigates
- Lead or piggyback third party diligence work on accounting, legal, operations, industry, key management, and projections
- · Visit key locations
- 30-50 page final IC memo memorializes work and findings
- Diligence reputations of transaction partners
- Present to IC for final approval

- Emphasis on covenants, voting rights, cash flow recapture, and incremental debt provisions
- Overly borrowerfriendly credit agreements will kill a deal
- Team credit cycle experience critical to understanding how legal provisions are used during restructurings
- Continuous communication on deal, no surprises

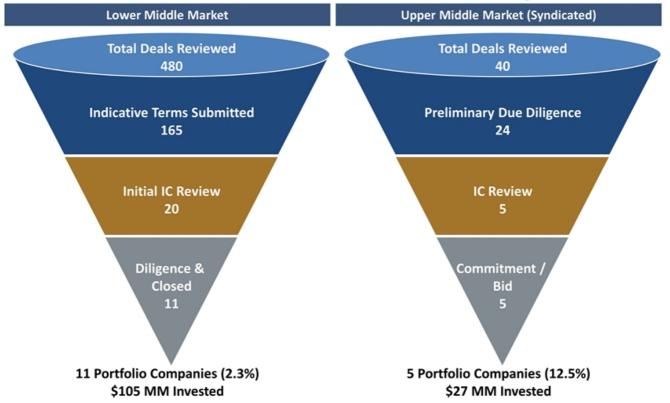
- Monthly meeting to review all portfolio positions
- Proactive dialogue with sponsor, credit facility agent, management, and industry relationships
- Board seat or observer rights on lower middle market names
- Quarterly portfolio valuations and covenant reviews

Consistent, Downside-Focused, Risk-Return Centric Credit Approach



## Maintaining Investment Discipline as Pipeline Grows

520 Deals Reviewed, 16 deals or \$132 million closed in LTM ending 9/30/17





## CSWC Taps Into a Broad Network of Deal Sources





## Portfolio Monitoring Process

- Team-based approach with objectives to:
  - · Continually evaluate portfolio
  - · Identify potential problems early
  - · Prompt deal teams to proactively address issues
- Monitoring mechanisms
  - · Monthly/quarterly financials
  - · Regular communication with management/sponsor/agent
  - · Board observation/membership rights in direct deals
- Monthly investment team meeting
  - · Review package of credit portfolio tracker reports for each investment
  - · Discuss performance and issues for each deal
  - · Assign follow-up duties to team overseeing struggling positions
- Assign and monitor 1 to 4 Investment Rating for each debt investment
  - 1 represents material outperformance, 4 represents material underperformance
- Senior executives will be involved day-to-day on workouts

#### **Example Monthly Portfolio Tracker**

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N Maryin Coverance \$87500 N Maryin Press Cash Flow In of \$87504 Belleton Sheet Cash Outer Current Asset FFEE Outer Surent South Sheet Outer Surent Sheet Assets Sheet Assets		13.MF 32.09 5342 5342 53.209 53.307 53847	22.79 25.000 42.79 26.400 26.400 26.400 26.400	51,277 11,74 52,94 53,844 54,885 58,886	51.80 51.50 20.50 51.60 51.60 51.60 51.60 51.60 51.60	\$1.00 \$1.00 \$1.00 \$1.00 \$1.00 \$1.00 \$1.00 \$1.00 \$1.00 \$1.00	0.310	Sides - 2013/2014 v adjustments	Plent solved from the Sa	moute and do n	et industr M	
N Margin Consequent 18/10s. N Margin Pleas Cash Pleas Cash Pleas Sign Pleas		(2.MF ALPA (2.44 (	22.79 25.600 42.79 53.400 53.200 53.200 50.500 50.500	51,277 11,79 52,800 54,800 51,800 51,800	51.00 54.75 51.00 51.00 51.00 51.00 51.00 51.00 51.00 51.00 51.00	SALES SERVI	0.310	Sides - 2013/2014 v sejectness - Georg De	Peri situal Para rise (in Wiscos IV s	results and de n	et include Pr	
S Maryle Coverant ESTON S Maryle Pero Cash Flore S of ESTON Debrook Stone Solar Coverant Asset PALE Other Assets Coverant Sales Coverant Sales Coverant Sales Sales Coverant Sales Sale		13.50° 52.50° 13.20° 13.20° 13.20° 13.20° 13.20° 13.20° 13.20°	22.79 20.600 42.74 50.600 50.200 50.600 50.600 50.600	\$1,270 11,276 \$27,866 \$1,866 \$1,866 \$1,966 \$1,966	51.000 34.75 21.507 21.75 51.674 51.603 51.603 51.603 51.603 51.603 51.603	SALES SERVI	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
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S Maryin Country I ST 104 S Maryin Free Cash Flore S of SS 104 Select Sheet Cash Country Sheet Country Sheet Country Sheet Select Selec		DAMP ALON DALON DA	22.79 23.800 42.79 24.600 24.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.600 26.6000 26.6	\$1,277 11,79 \$27,800 \$28,800 \$10,800 \$17,800 \$17,800 \$1,900	51,000 20,000 20,000 51,000 52,403 504,403 504,603 51,000 51,000 51,000 51,000	\$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
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S Maryin Country I STOM S Maryin Plea Cash Flore S of STOM Select Clash Flore S of STOM Select Clash Country Select Clash Country Select Clash Country Select Clash Select S		13.50° AL 65° AL	22.76 23.80 24.75 24.805 24.805 26.806 26.80	\$1,275 \$278 \$28.66 \$1,000 \$1,0	541.001 54.078 51.070 52.452 53.452 54.452 54.452 54.450 54.450 54.460 51.001 51.001 51.001	\$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000 \$1.000	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
S Maryin Construct SETEM S Maryin Free Cash Flore S of SETEM Settlemen Short Gain Order Gurman Assen FPLE Order Survant Assen FPLE Settlemen Short Settlemen Survant Settlemen Settlemen Survant Settlemen Set		13.MF 32.0% (144. (14.20% (15.20% (16.40%) (16.40%) (16.40%) (16.40%)	22.79 25.600 43.74 50.600 50.600 50.600 50.600 50.600 50.600 50.600 50.600	\$1,277 21,76 \$28,866 \$4,866 \$10,866 \$1,866 \$1,866 \$1,866 \$1,866 \$1,866 \$1,866 \$1,866 \$1,866	51.000 51.507 20.50 51.000 51.000 51.000 50.000 50.000 51.000 51.000 51.000	\$1.000 \$1.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000 \$10.000	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
N Maryon Construct SERTON N Maryon Person Continued SERTON Service Ser	rice suring	(2.50° ) (2.61° ) (2.61° ) (2.61° ) (2.61° ) (2.61° ) (2.61° ) (3.61° ) (3.	22.7% 23.80% 43.7% 24.60% 24.60% 24.60% 26.6	\$1,277 12,78 \$279 \$28,866 \$4,866 \$17,660 \$17,660 \$1,660 \$1,660 \$1,660 \$1,660 \$1,660 \$1,660	24.000 24.00 25.00 26.00	\$1.000 \$1.000 \$1.000 \$1.000 \$2.000 \$2.000 \$2.000 \$1	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
S Maryin Construct SERTON S Maryin Pers Cash Flore S S SERTON S S SERTON S S S S S S S S S S S S S S S S S S S		12.00° A1.00 12.00° 12.	22.76 25.865 42.76 24.266 24.266 26.266 26.865 26.865 26.865 26.265 26.265 26.265 26.265 26.265 26.265	\$1,277 12,78 \$2,860 \$1,860 \$1,860 \$1,860 \$1,860 \$1,860 \$1,860 \$1,860 \$1,860	54.800 54.65 54.65 54.65 54.65 54.65 54.65 54.65 54.66	\$14.900 \$2.000 \$10.000 \$10.000 \$10.000 \$14.000	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
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N. Maryan Country of EMTON N. Maryan N. Maryan N. Maryan N. Maryan Note Country Note Count Other Country Note		12.50 12.50 12.50 13.127 13.627 13.627 13.63	22.76 23.26 24.75 24.26 25.26	\$1,277 \$23,866 \$4,866 \$1,867 \$1,867 \$1,867 \$1,868 \$1,860 \$	541.001 54.075 51.074 51.074 51.074 51.075 5	\$14.900 \$1.900 \$12.900 \$12.900 \$12.900 \$14.900	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
Coverage ENTER		12.50° 22.50° 22.50° 23.50° 23.50° 23.50° 23.50° 23.50° 23.50° 24	22.76 23.860 43.75 24.860 24.860 24.860 24.860 24.860 24.860 25.860 26.800 26.8	\$1,277 11.78 \$29.600 \$10.000 \$	54.801 24.95 54.602 54.	\$14.900 \$2.800 \$16.900	0.310	Soles - 2013/2004 or adjustments - Charley Chin - 2014 marchs	Part solvel from the So where IV a mojusis IV a	maulis and do n d report (justinesis) in the	et include Pr	
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## Valuation Process Overview

- 3<sup>rd</sup> Party Valuation Consultants are an integral part of our valuation process
- Our 3<sup>rd</sup> Party Valuation Consultants value our portfolio based on the following guidelines:
  - All Lower Middle Market investments are valued at least 2x per year
  - · Underperforming investments are generally valued 4x per year

Final Valuation Audit And **Begin Valuing** Valuation Review 1 3<sup>rd</sup> Party Review **Valuation Meeting** Committee/ Sr. Mgmt. **Board of Directors** Sign-offs Step 1 Step 2 Step 3 Step 4 Step 5 Step 6 Step 7 Valuation Finance CFO and 3rd Party Final Review Internal Board of Department begins Models Treasurer review Valuation Valuation and Sign-off by Directors Meeting (Sr. updated by valuation analysis valuation results Consultants Senior Review and **Deal Teams** review portfolio Management, Management Approval and provide and Auditors Deal Teams, valuation range Finance Dept.) to Finance Dept.



# Appendix C: Financial Statements



## **Balance Sheet**

(In Thousands, except per share amounts)	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



## Income Statement

(In Thousands, except per share amounts)	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



# **Portfolio Statistics**

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

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

<sup>(1)</sup> 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.



<sup>(2)</sup> Includes dividends from Media Recovery, Inc. and I-45 Senior Loan Fund.

<sup>(3)</sup> Excludes CSWC equity investment in I-45 Senior Loan Fund.

<sup>(4)</sup> At Fair Value

## 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

(In Thousands)	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 % of Total Investment Income that is Recurring <sup>(1)</sup>	98% 90%	97% 90%	97% 93%	97% 97%

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



# Corporate Information

#### **Board of Directors**

**Inside Directors** 

Bowen S. Diehl

#### **Independent Directors**

David R. Brooks Jack D. Furst T. Duane Morgan William R. Thomas John H. Wilson

### Corporate Offices & Website

5400 LBJ Freeway 13th Floor Dallas, TX 75240 http://www.capitalsouthwest.com

#### **Senior Management**

Bowen S. Diehl
President & Chief Executive Officer

Michael S. Sarner Chief Financial Officer, Secretary & Treasurer

#### **Investor Relations**

Michael S. Sarner Capital Southwest 214-884-3829

msarner@capitalsouthwest.com

### Securities Listing

NASDAQ: CSWC

#### Fiscal Year End

March 31

#### Independent Auditor

RSM US Chicago, IL

#### **Corporate Counsel**

Jones Day / Eversheds Sutherland

#### **Transfer Agent**

American Stock Transfer & Trust Company, LLC 800-937-5449 www.amstock.com

Industry Analyst Coverage						
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				
Ladenburg Thalmann	Mickey M. Schleien, CFA	Direct: 305-572-4131				
Janney Montgomery Scott, LLC	Mitchel Penn, CFA	Direct: 410-583-5976				

