



Capital Southwest Corporation

Q4 2023 Earnings Presentation

May 23, 2023

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Conference Call Participants

Bowen S. Diehl

President and Chief Executive Officer

Michael S. Sarner

Chief Financial Officer

Chris Rehberger

VP Finance / Treasurer

CSWC Company Overview

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

- CSWC was formed in 1961, and elected to be regulated as a BDC in 1988
- Publicly-traded on Nasdaq: Common Stock (“CSWC”)
- Internally Managed BDC with RIC tax treatment for U.S. federal income tax purposes
- 26 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$1.3 B as of March 31, 2023
- Operate Capital Southwest SBIC I, LP, a wholly-owned subsidiary
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (NYSE: “MAIN”)
- Maintain investment grade issuer rating of Baa3 from Moody's Investor Service

Fiscal Year 2023 Highlights

Financial Highlights

- Investments at Fair Value of \$1.2 B compared to \$937 MM in prior year, an increase of 29%
- Pre-Tax Net Investment Income increased to \$2.30 per share from \$1.90 per share in prior year, an increase of 21%
- Paid Regular Dividends of \$2.03 compared to \$1.82 in prior year, an increase of 12%
- Weighted Average Yield on Portfolio increased to 12.8% compared to 9.3% in prior year
- Strengthened Balance Sheet through capital raising activities
 - Raised \$207 MM in gross equity proceeds at a weighted average price of \$18.89, or 114% of the prevailing NAV per share
 - Increased total commitments on Credit Facility to \$400 MM from \$335 MM in prior year
 - Obtained additional \$50 MM in leverage commitments during the year resulting in total of \$130 MM in SBA approved leverage
- Operating Leverage⁽¹⁾ improved to 1.9% as of 3/31/23 from 2.2% as of 3/31/22
- Regulatory Debt to Equity decreased to 0.88x as of 3/31/23 from 1.16x as of 3/31/22
- Received Baa3 investment grade rating from Moody's Investors Service in March 2023

(1) Operating Leverage calculated as last twelve months operating expenses (excluding interest expense) divided by average annual assets

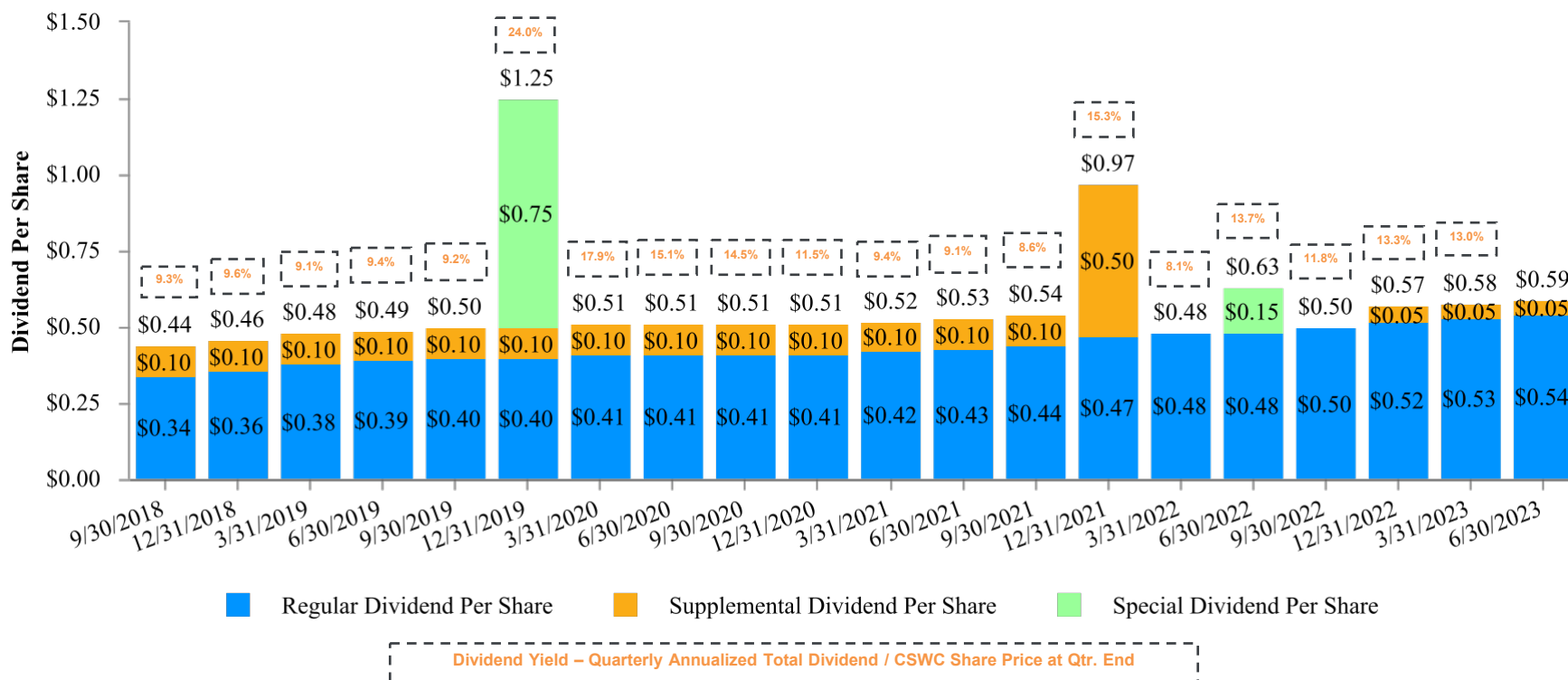
Q4 2023 Highlights

Financial Highlights

- Q4 2023 Pre-Tax Net Investment Income (“NII”) of \$22.8 MM or \$0.65 per share compared to \$0.60 per share in the prior quarter, an increase of 8%
- Paid \$0.53 per share Regular Dividend and \$0.05 per share Supplemental Dividend for the quarter ended March 31, 2023
 - Increased Regular Dividend to \$0.54 per share for the quarter ending June 30, 2023, an increase of 1.9% compared to the prior quarter
 - Declared Supplemental Dividend of \$0.05 per share for the quarter ending June 30, 2023
- Investment Portfolio at Fair Value increased to \$1.21 B from \$1.15 B in prior quarter
 - \$67.3 MM in total new committed investments to five new portfolio companies and add-on commitments to nine existing portfolio companies
 - \$16.8 MM in total proceeds from one debt prepayment generating an IRR of 13.0%
- Raised \$29.2 MM in gross proceeds through Equity ATM Program during the quarter
 - Sold shares at weighted-average price of \$19.15 per share, or 118% of the prevailing NAV per share
- Regulatory Debt to Equity decreased to 0.88x from 0.91x in prior quarter
- \$164 MM available on Credit Facility and \$21.6 MM in cash and cash equivalents as of quarter end

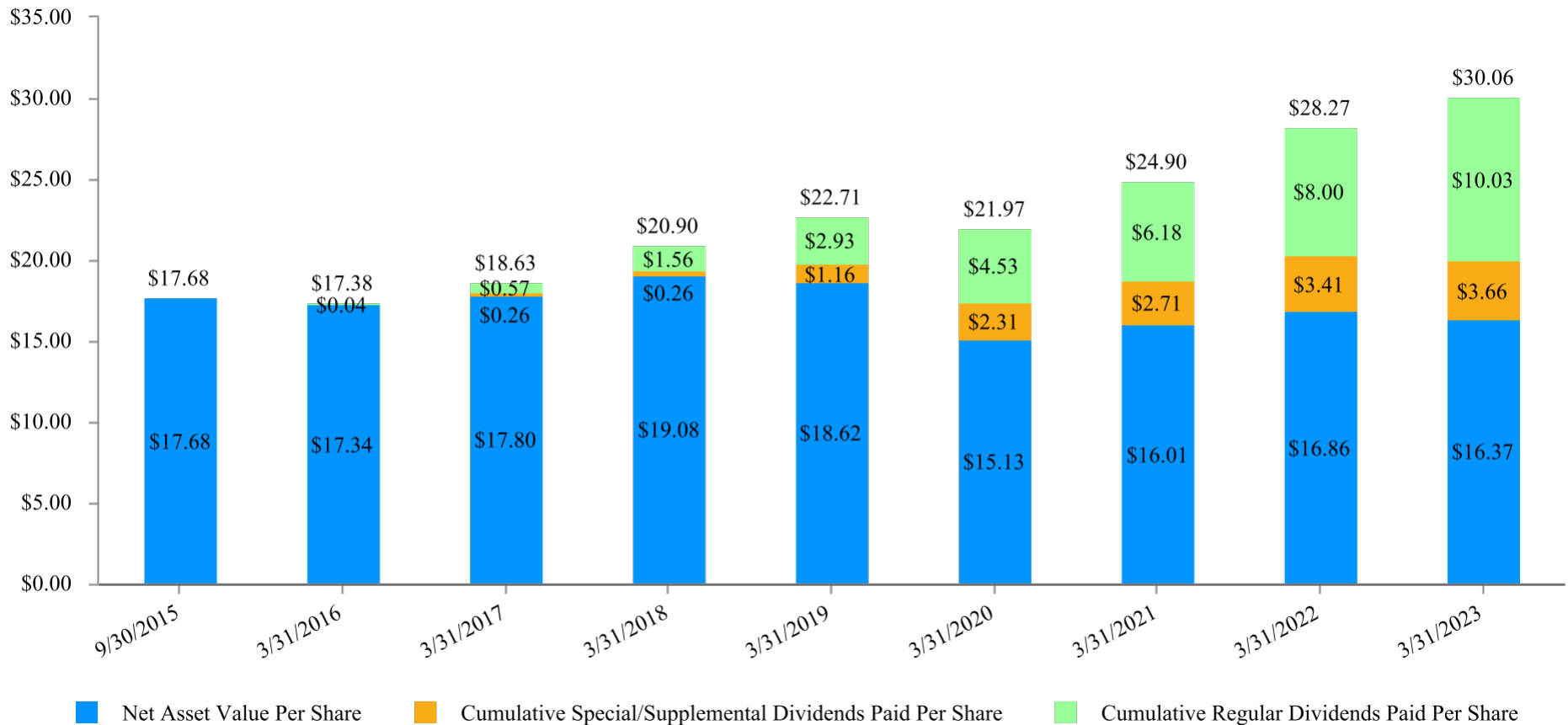
Track Record of Consistent Dividends Continues

- In the last twelve months ended 3/31/2023, CSWC generated \$2.30 per share in Pre-Tax NII and paid out \$2.03 per share in Regular Dividends
 - LTM Pre-Tax NII Regular Dividend Coverage of 113%
- Cumulative Pre-Tax NII Regular Dividend Coverage of 108% since December 2015
- Total of \$3.71 per share Special and Supplemental Dividends declared since December 2015
- Estimated Undistributed Taxable Income ("UTI") of \$0.45 per share as of March 31, 2023



History of Value Creation

Total Value (Net Asset Value + Cumulative Dividends Paid) Increase from Credit Strategy of \$12.38 per share through 3/31/2023



Credit Investment Strategy

CORE: Lower Middle Market (“LMM”): CSWC led or Club Deals

- Companies with EBITDA between \$3 MM and \$20 MM
- Typical leverage of 2.0x – 4.0x Debt to EBITDA through CSWC debt position
- Commitment size up to \$35 MM with hold sizes generally \$5 MM to \$35 MM
- Both sponsored and non-sponsored deals
- Securities include first lien, unitranche, and second lien
- Frequently make equity co-investments alongside CSWC debt

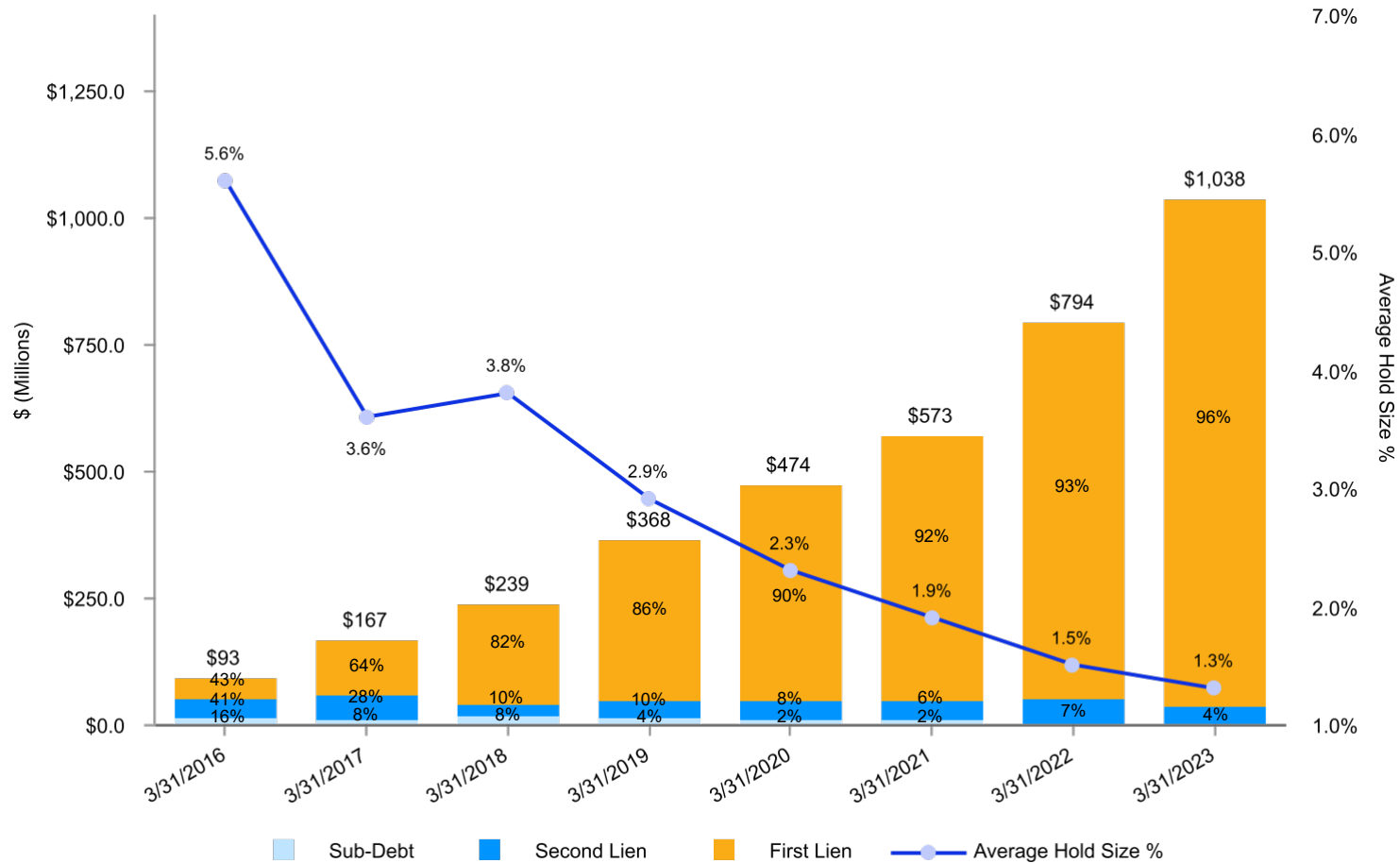
OPPORTUNISTIC: Upper Middle Market (“UMM”): Syndicated or Club, First and Second Lien

- Companies typically have in excess of \$20 MM in EBITDA
- Typical leverage of 3.5x – 5.5x Debt to EBITDA through CSWC debt position
- Hold sizes generally \$5 MM to \$20 MM
- Floating rate first and second lien debt securities

Credit Portfolio Heavily Weighted Towards First Lien Investments

96% of credit portfolio in first lien senior secured loans with an average investment hold size of 1.3% as of 3/31/23

Credit Portfolio Heavily Weighted to First Lien



Q4 2023 Originations

\$67.3 MM in total new committed investments to five new portfolio companies and nine existing portfolio companies

- \$59.6 MM funded at close

Portfolio Originations		Q4 2023				
Name	Industry	Type	Total Debt Funded at Close (\$000s)	Total Equity Funded at Close (\$000s)	Unfunded Commitments at Close (\$000s)	Debt Yield to Maturity
C&M Conveyor, Inc. (DBA Innoveyance)	Business services	First Lien	\$13,000	\$—	\$—	12.5%
Island Pump and Tank, LLC	Environmental services	First Lien / Equity	\$9,000	\$750	\$1,500	13.1%
GPT Industries, LLC	Industrial products	First Lien / Equity	\$6,150	\$1,000	\$3,000	12.3%
Cavalier Buyer, Inc. (DBA James River Cardiology)	Healthcare services	First Lien / Equity	\$6,500	\$625	\$2,000	14.1%
Spectrum of Hope, LLC (DBA Kids SPOT)	Healthcare services	First Lien / Equity	\$5,210	\$1,000	\$—	13.1%
Guardian Fleet Services, Inc.	Transportation & logistics	First Lien / Equity	\$4,500	\$1,500	\$—	12.7%
Outerbox, LLC	Media & marketing	First Lien / Equity	\$3,825	\$131	\$—	12.3%
Air Conditioning Specialist, Inc.	Consumer services	First Lien	\$2,400	\$—	\$1,000	12.8%
NeuroPsychiatric Hospitals, LLC	Healthcare services	First Lien	\$3,176	\$—	\$—	15.6%
Other Equity Co-Investments	Various	Equity	\$—	\$559	\$—	N/A
AAC New Holdco Inc.	Healthcare services	First Lien	\$266	\$—	\$200	18.0%
Total / Wtd. Avg			\$54,027	\$5,565	\$7,700	13.1%

Track Record of CSWC Exits Continues

\$16.8 MM in total proceeds from one portfolio company exit

- During the quarter, CSWC exited one debt investment, generating proceeds of \$16.8 MM and an IRR of 13.0%
- Cumulative IRR of 14.5% on 68 portfolio company exits generating \$798 MM in proceeds since launch of credit strategy in January 2015

Portfolio Exits		Q4 2023			
Name	Industry	Type	Net Proceeds (\$000s)	Realized Gain / (Loss) (\$000s)	IRR
Amware Fulfillment LLC	Distribution	First Lien	\$16,838	\$3	13.0%
Total / Wtd. Avg			\$16,838	\$3	13.0%

CSWC Investment Portfolio Composition

Maintaining appropriate portfolio leverage while receiving attractive risk-adjusted returns

Investment Portfolio - Statistics		
(in \$000's)	12/31/2022	3/31/2023
	Total CSWC Portfolio	Total CSWC Portfolio
Number of Portfolio Companies	81	85
Total Cost	\$1,083,712	\$1,139,352
Total Fair Value	\$1,102,421	\$1,155,132
Average Hold Size Debt Investments (at Fair Value)	\$13,382	\$13,303
Average Hold Size Equity Investments (at Fair Value)	\$2,336	\$2,218
% First Lien Investments (at Fair Value)	86.5%	86.6%
% Second Lien Investments (at Fair Value)	3.2%	3.1%
% Subordinated Debt Investments (at Fair Value)	0.1%	0.1%
% Equity (at Fair Value) ⁽¹⁾	10.2%	10.2%
Wtd. Avg. Yield on Debt Investments ⁽²⁾	12.0%	12.8%
Wtd. Avg. Yield on Total Investments ⁽³⁾	11.7%	12.1%
Wtd. Avg. EBITDA of Issuer (\$MM's) ⁽⁴⁾	\$22.1	\$21.0
Wtd. Avg. Leverage through CSWC Security ⁽⁵⁾	3.6x	4.0x

Note: All metrics above exclude the I-45 SLF

(1) At March 31, 2023 and December 31, 2022, we had equity ownership in approximately 62% and 59%, respectively, of our investments

(2) The weighted-average annual effective yields were computed using the effective interest rates during the quarter for all debt investments at cost as of March 31, 2023, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments

(3) The weighted average annual effective yields on total investments were calculated by dividing total investment income, exclusive of non-recurring fees, by average total investments at fair value

(4) Includes CSWC debt investments only. Weighted average EBITDA metric is calculated using investment cost basis weighting. For both quarters ended March 31, 2023 and December 31, 2022, nine portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

(5) Includes CSWC debt investments only. Calculated as the amount of each portfolio company's debt (including CSWC's position and debt senior or pari passu to CSWC's position, but excluding debt subordinated to CSWC's position) in the capital structure divided by each portfolio company's adjusted EBITDA. Weighted average leverage is calculated using investment cost basis weighting. For both quarters ended March 31, 2023 and December 31, 2022, nine portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

Quarter-over-Quarter Investment Rating Migration

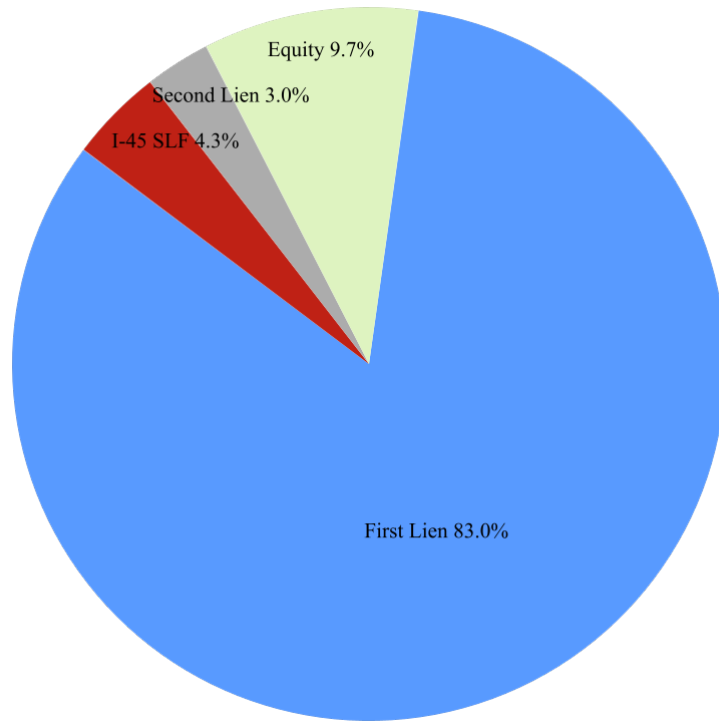
Approximately 96% of all debt investments are currently rated a "1" or "2" as credit portfolio continues to demonstrate strong performance

Investment Rating	12/31/2022			Investment Rating Upgrades			Investment Rating Downgrades			3/31/2023		
	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)	# of Loans	Fair Value (\$MM)	% of Portfolio (FV)
1	7	\$118.0	11.9%	4	\$52.3	5.0%	—	\$—	—%	10	\$153.1	14.8%
2	77	\$824.0	83.2%	2	\$30.8	3.0%	—	\$—	—%	81	\$839.5	80.9%
3	6	\$48.0	4.9%	—	\$—	—%	2	\$23.1	2.2%	5	\$44.7	4.3%
4	3	\$0.3	—%	—	\$—	—%	1	\$0.0	—%	4	\$0.3	—%
Wtd. Avg. Investment Rating (at Cost)	1.96									1.93		

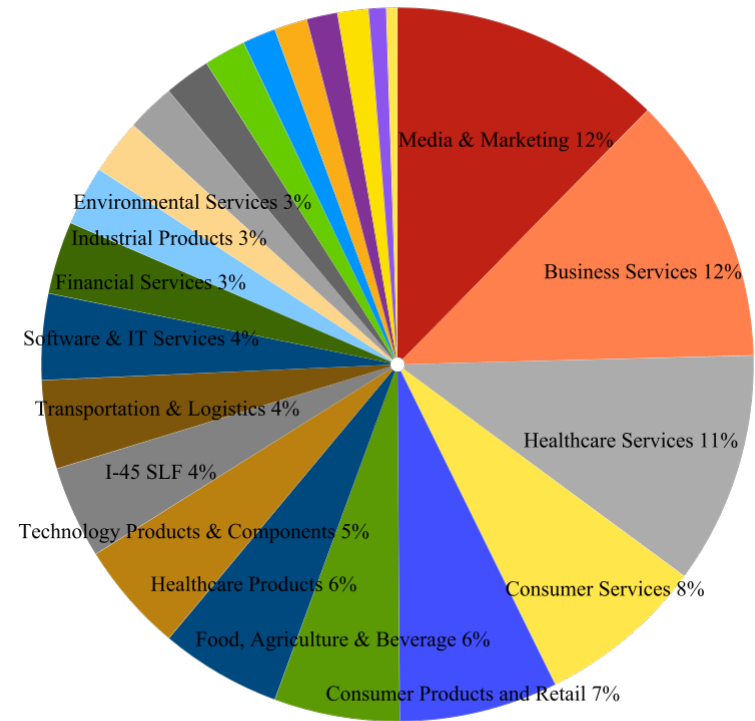
CSWC Portfolio Mix as of March 31, 2023 at Fair Value

Current Investment Portfolio of \$1.2 B continues to be diverse across industries

Current Investment Portfolio (By Type)



Current Investment Portfolio (By Industry)



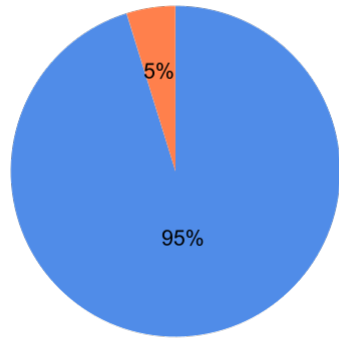
(Note 1) I-45 SLF consists of 95% first lien senior secured debt

(Note 2) Equity represents equity co-investments across 53 portfolio companies

I-45 SLF Portfolio Overview

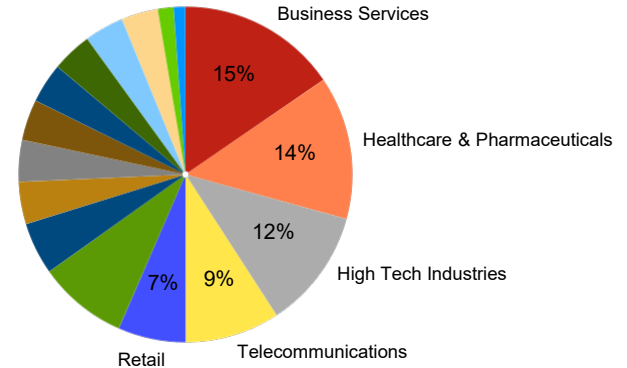
I-45 SLF loan portfolio of \$144 MM is 95% first lien senior secured debt with average hold size of 2.8% of the I-45 portfolio

Current I-45 Portfolio (By Type)



■ First Lien ■ Non-First Lien

Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
(In Thousands)	<u>6/30/2022</u>	<u>9/30/2022</u>	<u>12/31/2022</u>	<u>3/31/2023</u>
Total Investments at Fair Value	\$173,509	\$168,610	\$160,998	\$143,712
Fund Leverage (Debt to Equity) at Fair Value	1.70x	1.73x	1.75x	1.34x
Number of Issuers	39	39	39	36
Wtd. Avg. Issuer EBITDA ⁽¹⁾	\$78,190	\$81,162	\$81,865	\$74,955
Avg. Investment Size as a % of Portfolio	2.6%	2.6%	2.6%	2.8%
Wtd. Avg. Net Leverage on Investments ⁽¹⁾⁽²⁾	4.7x	4.4x	4.5x	4.8x
Wtd. Avg. Spread to LIBOR / SOFR	6.1%	6.3%	6.3%	6.3%
Wtd. Avg. Duration (Yrs)	3.5	3.3	2.9	2.6

(1) For the quarter ended March 31, 2023, three portfolio companies are excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

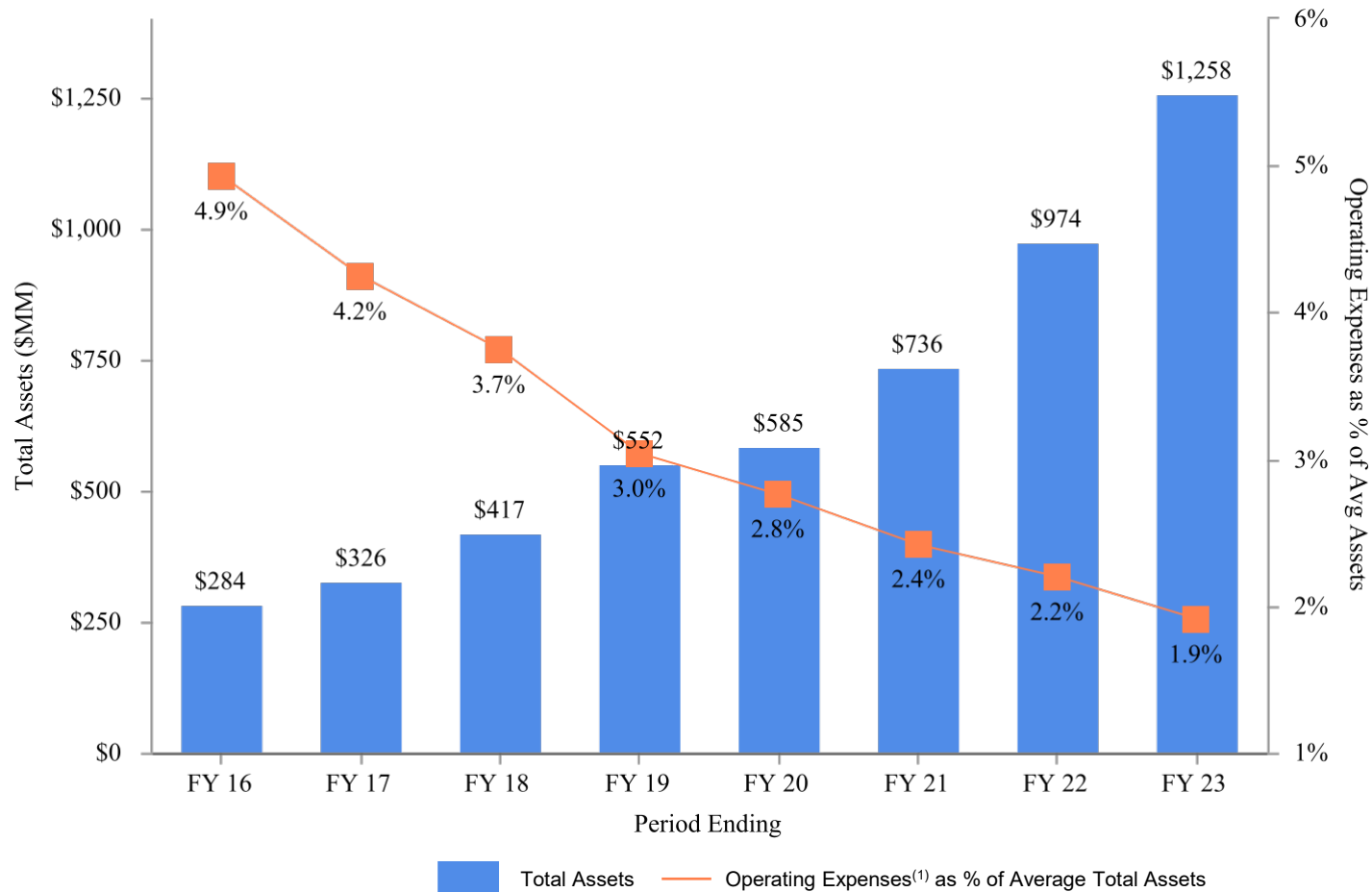
(2) Through I-45 SLF security

Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 6/30/22	Quarter Ended 9/30/22	Quarter Ended 12/31/22	Quarter Ended 3/31/23
Investment Income				
Interest Income	\$18,260	\$22,119	\$27,639	\$31,622
PIK Interest Income	687	1,384	1,501	1,870
Dividend Income	2,186	2,527	2,382	2,207
Fees and Other Income	1,410	769	1,244	1,493
Total Investment Income	\$22,543	\$26,799	\$32,766	\$37,192
Expenses				
Cash Compensation	\$1,542	\$2,254	\$3,381	\$2,693
Share Based Compensation	821	1,060	992	832
General & Administrative	2,066	1,878	1,777	2,091
Total Expenses (excluding Interest)	\$4,429	\$5,192	\$6,150	\$5,616
Interest Expense	\$5,484	\$6,629	\$7,937	\$8,823
Pre-Tax Net Investment Income	\$12,630	\$14,978	\$18,679	\$22,753
Gains / Losses and Taxes				
Net Realized and Unrealized Gains (Losses)	\$(9,928)	\$(4,986)	\$(16,476)	\$(4,228)
Income Tax (Expense) / Benefit	(192)	(534)	746	(349)
Net increase in Net Assets Resulting from Operations	\$2,510	\$9,458	\$2,949	\$18,176
Weighted Average Diluted Shares Outstanding	25,514	27,988	31,381	35,244
Pre-Tax NII Per Diluted Weighted Average Share	\$0.50	\$0.54	\$0.60	\$0.65
Net Increase in Net Assets Per Dil. Wtd. Average Share	\$0.10	\$0.34	\$0.09	\$0.52

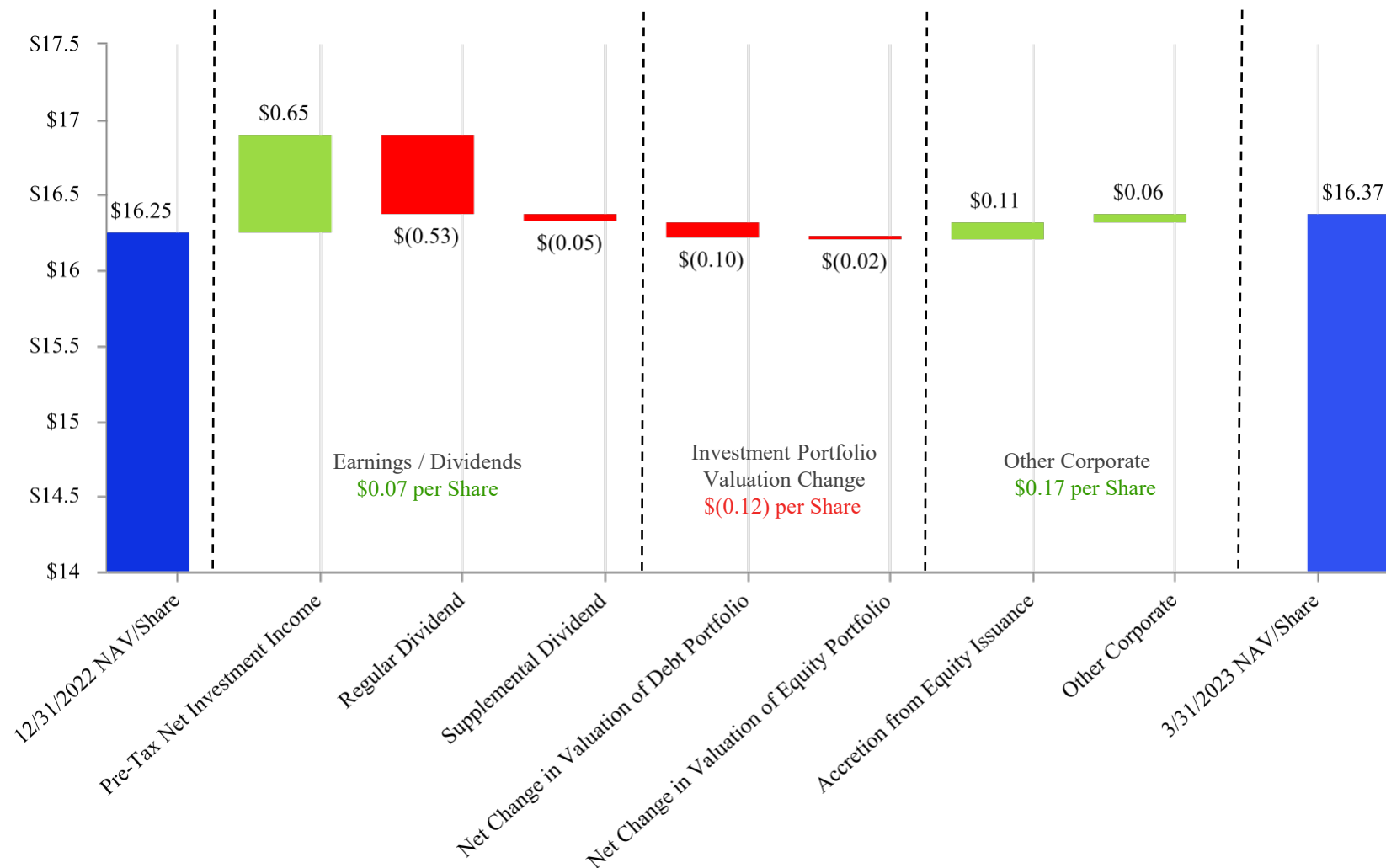
Operating Leverage Trend

Continue to realize operating efficiencies of internally managed structure



Note: Operating Leverage calculated as last twelve months operating expenses (excluding interest expense) divided by average annual assets
 (1) Operating expenses exclude interest expense

NAV per Share Bridge for Quarter Ended 3/31/2023



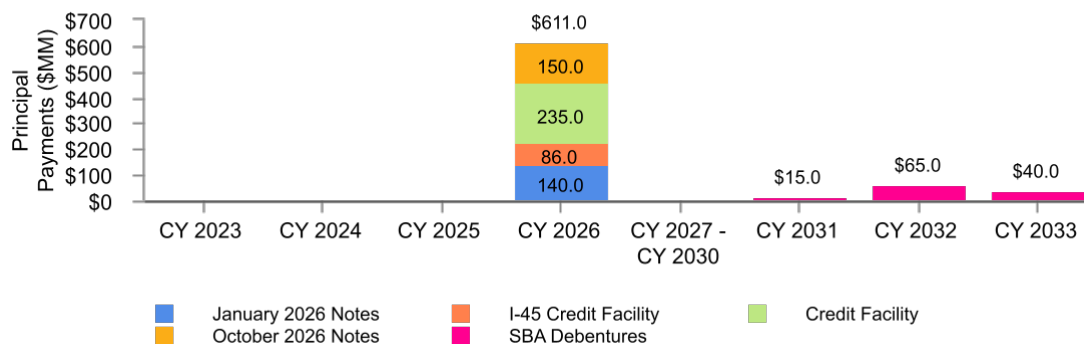
Note: "Other Corporate" consists primarily of \$0.06 per share in change in restoration plan liability

Significant Unused Debt Capacity with Long-Term Duration

Earliest debt maturity occurs in January 2026

Facility	Total Commitments	Interest Rate	Maturity	Principal Drawn	Undrawn Commitment
January 2026 Notes ⁽¹⁾	\$140.0 MM	4.50%	January 2026	\$140.0 MM	N/A
I-45 Credit Facility ⁽²⁾	\$100.0 MM	Term SOFR + 2.41%	March 2026	\$86.0 MM	\$14.0 MM
Credit Facility	\$400.0 MM	Term SOFR + 2.15% ⁽³⁾	August 2026	\$235.0 MM	\$164.4 MM ⁽⁴⁾
October 2026 Notes ⁽⁵⁾	\$150.0 MM	3.375%	October 2026	\$150.0 MM	N/A
SBA Debentures	\$130.0 MM	4.08% ⁽⁶⁾	September 2031 ⁽⁷⁾	\$120.0 MM	\$10.0 MM ⁽⁸⁾

Long-Term Debt Obligations (Calendar Year)



(1) Redeemable in whole or in part at any time prior to October 31, 2025, at par plus a "make whole" premium, and thereafter at par

(2) CSWC owns 80% of the equity and 50% of the voting rights of I-45 SLF with a joint venture partner

(3) Additional 0.10% adjustment for 1-month SOFR loans, and 0.15% adjustment for 3-month SOFR loans

(4) Net of \$0.6 MM in letters of credit outstanding

(5) Redeemable in whole or in part at any time prior to July 1, 2026, at par plus a "make whole" premium, and thereafter at par

(6) Weighted average interest rate of all pooled and unpooled SBA Debentures for the three months ended March 31, 2023

(7) First pooled SBA Debentures mature on September 1, 2031

(8) Current statutes and regulations permit SBIC I to borrow up to \$175 million in SBA Debentures with at least \$87.5 million in regulatory capital, subject to SBA approval

Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 6/30/22	Quarter Ended 9/30/22	Quarter Ended 12/31/22	Quarter Ended 3/31/23
Assets				
Portfolio Investments	\$1,006,640	\$1,056,931	\$1,150,046	\$1,206,388
Cash & Cash Equivalents	18,770	30,238	21,686	21,585
Other Assets	28,549	26,002	30,425	29,711
Total Assets	\$1,053,959	\$1,113,171	\$1,202,157	\$1,257,684
Liabilities				
SBA Debentures	\$77,461	\$77,553	\$100,582	\$116,330
January 2026 Notes	138,798	138,883	138,967	139,051
October 2026 Notes	146,708	146,893	147,078	147,263
Credit Facility	215,000	240,000	225,000	235,000
Other Liabilities	23,007	34,118	29,043	29,632
Total Liabilities	\$600,974	\$637,447	\$640,670	\$667,276
Shareholders Equity				
Net Asset Value	\$452,985	\$475,724	\$561,487	\$590,408
Net Asset Value per Share	\$16.54	\$16.53	\$16.25	\$16.37
Regulatory Debt to Equity	1.10x	1.11x	0.91x	0.88x

Portfolio Statistics

Continuing to build a well performing credit portfolio

<i>(In Thousands)</i>	Quarter Ended 6/30/22	Quarter Ended 9/30/22	Quarter Ended 12/31/22	Quarter Ended 3/31/23
Portfolio Statistics				
Fair Value of Debt Investments	\$865,432	\$903,451	\$990,298	\$1,037,595
Average Debt Investment Hold Size	\$12,727	\$12,906	\$13,382	\$13,303
Fair Value of Debt Investments as a % of Par	97%	96%	96%	96%
% of Investment Portfolio on Non-Accrual (at Fair Value)	1.6%	0.9%	0.3%	0.3%
Weighted Average Investment Rating ⁽¹⁾	1.98	1.95	1.96	1.93
Weighted Average Yield on Debt Investments	9.31%	10.59%	11.97%	12.78%
Fair Value of All Portfolio Investments	\$1,006,640	\$1,056,931	\$1,150,046	\$1,206,388
Weighted Average Yield on all Portfolio Investments	9.11%	10.29%	11.70%	12.11%
Investment Mix (Debt vs. Equity) ⁽²⁾⁽³⁾	91% / 9%	91% / 9%	90% / 10%	90% / 10%

(1) CSWC utilizes an internal 1 - 4 investment rating system in which 1 represents material outperformance and 4 represents material underperformance. All new investments are initially set to 2. Weighted average investment rating calculated at cost

(2) Excludes CSWC equity investment in I-45 SLF

(3) At Fair Value

Investment Income Detail

Constructing a portfolio of investments with recurring cash yield

(In Thousands)	Quarter Ended 6/30/22	Quarter Ended 9/30/22	Quarter Ended 12/31/22	Quarter Ended 3/31/23
Investment Income Breakdown				
Cash Interest	\$17,414	\$21,173	\$26,619	\$30,712
Cash Dividends	2,186	2,527	2,382	2,208
PIK Income	687	1,384	1,501	1,869
Amortization of Purchase Discounts and Fees	848	963	1,062	969
Management/Admin Fees	264	329	310	369
Prepayment Fees & Other Income	1,144	423	892	1,066
Total Investment Income	\$22,543	\$26,799	\$32,766	\$37,193
Key Metrics				
Cash Income as a % of Investment Income ⁽¹⁾	97%	95%	95%	95%
% of Total Investment Income that is Recurring	95%	98%	97%	97%

(1) Includes Purchase Discounts and Fees previously received in cash

Key Financial Metrics

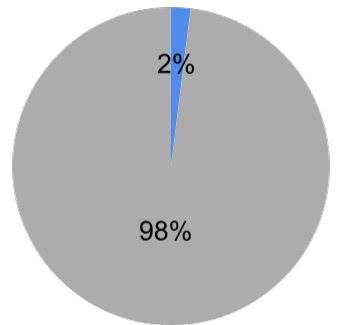
Strong Pre-Tax Net Investment Income and Dividend Yield driven by net portfolio growth and investment performance

	Quarter Ended 6/30/22	Quarter Ended 9/30/22	Quarter Ended 12/31/22	Quarter Ended 3/31/23
Key Financial Metrics				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.50	\$0.54	\$0.60	\$0.65
Pre-Tax Net Investment Income Return on Equity (ROE) ⁽¹⁾	11.74%	12.94%	14.40%	15.89%
Realized Earnings Per Wtd Avg Diluted Share	\$0.58	\$0.21	\$0.27	\$0.65
Realized Earnings Return on Equity (ROE) ⁽¹⁾	13.72%	5.02%	6.43%	15.91%
Earnings Per Wtd Avg Diluted Share	\$0.10	\$0.34	\$0.09	\$0.52
Earnings Return on Equity (ROE) ⁽¹⁾	2.33%	8.17%	2.27%	12.69%
Regular Dividends per Share	\$0.48	\$0.50	\$0.52	\$0.53
Supplemental / Special Dividends per Share	\$0.15	\$—	\$0.05	\$0.05
Total Dividends per Share	\$0.63	\$0.50	\$0.57	\$0.58

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

Interest Rate Sensitivity

Fixed vs. Floating Credit Portfolio Exposure ⁽¹⁾



■ Fixed ■ Floating

Change in Base Interest Rates	Illustrative Annual NII Change (\$'s)	Illustrative Annual NII Change (\$ Per Share)
(200 bps)	(16,942,166)	(0.47)
(150 bps)	(12,706,625)	(0.35)
(100 bps)	(8,471,083)	(0.23)
(50 bps)	(4,235,542)	(0.12)
50 bps	4,235,542	0.12

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

Note: Illustrative change in annual NII is based on a projection of CSWC's existing debt investments as of 3/31/2023, adjusted only for changes in Base Interest Rate. Base Interest Rate used in this analysis is 3-Month LIBOR of 5.19% at 3/31/2023. The results of this analysis include the I-45 Senior Loan Fund, which is comprised of 98% floating rate debt assets and 100% floating rate liabilities

Corporate Information

Board of Directors
Inside Director Bowen S. Diehl
Independent Directors David R. Brooks Christine S. Battist Jack D. Furst William R. Thomas Ramona Rogers-Windsor

Senior Management
Bowen S. Diehl <i>President & Chief Executive Officer</i>
Michael S. Sarnar <i>Chief Financial Officer, Secretary & Treasurer</i>
Joshua S. Weinstein <i>Senior Managing Director</i>

Fiscal Year End
March 31

Independent Auditor
RSM US LLP Chicago, IL

Corporate Counsel
Eversheds Sutherland (US) LLP

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Securities Listing
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