

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

**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): **August 5, 2019**

**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**

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.

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

On August 5, 2019, 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 August 6, 2019. 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="#">99.1</a>	<a href="#">Press release issued by Capital Southwest Corporation on August 5, 2019</a>
<a href="#">99.2</a>	<a href="#">Investor presentation slides</a>

**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: August 5, 2019

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

## Capital Southwest Announces Financial Results for First Fiscal Quarter Ended June 30, 2019 and Announces Total Dividends of \$0.50 Per Share for the Quarter Ended September 30, 2019

*CSWC Reports Pre-Tax Net Investment Income of \$0.44 Per Share*

**Dallas, Texas – August 5, 2019** – 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 businesses, today announced its financial results for the first fiscal quarter ended June 30, 2019.

### First Quarter Fiscal Year 2020 Financial Highlights

- Total Investment Portfolio: \$533.5 million
  - Credit Portfolio of \$381.7 million:
    - 87% 1st Lien Senior Secured Debt
    - \$34.7 million in new committed credit investments
    - One 1st Lien Senior Secured Debt investment currently on non-accrual with a fair value of \$7.9 million, representing 1.5% of the total investment portfolio
    - Weighted Average Yield on Debt Investments: 11.7%
  - Equity Portfolio of \$87.0 million, excluding investment in I-45 Senior Loan Fund (“I-45 SLF”)
  - CSWC Investment in I-45 SLF of \$64.8 million
    - I-45 SLF portfolio of \$234.7 million
      - Portfolio consists of 50 issuers: 95% 1st Lien Debt and 5% 2nd Lien Debt
    - I-45 SLF paid a \$2.9 million quarterly dividend to CSWC, an annualized yield of 17.7%
- Pre-Tax Net Investment Income: \$7.7 million, or \$0.44 per weighted average diluted share
- Dividends: Paid \$0.39 per share in Regular Dividend, plus \$0.10 per share Supplemental Dividend for the quarter ended June 30, 2019
  - Total Dividends for the quarter ended June 30, 2019 of \$0.49 per share
- Net Realized and Unrealized Portfolio Depreciation: \$0.6 million, or \$0.04 per weighted average diluted share
- Balance Sheet:
  - Cash and Cash Equivalents: \$12.0 million
  - Total Net Assets: \$328.8 million
  - Net Asset Value (“NAV”) per Share: \$18.58

In commenting on the Company's results, Bowen Diehl, President and Chief Executive Officer, stated, "We are pleased to announce another quarter of solid growth in our investment portfolio and earnings. As we look ahead, we continue to be excited about the opportunities in the Lower Middle Market while our deal pipeline remains strong. We continue to employ our conservative, late-cycle credit underwriting principals in a market where competition remains intense and the economy, while being late in the credit cycle, appears to be showing resilience in the short term. With our board's declaration of a total dividend of \$0.50 for the September quarter, this will mark our 15th consecutive quarter of increasing shareholder distributions. Finally, this quarter we continued to strengthen our balance sheet, diversifying our capital sources by adding a new bank lender to our credit facility, while also continuing to add equity capital to the capital structure through our equity ATM program."

#### **First Quarter Fiscal Year Investment Activities**

During the quarter ended June 30, 2019, the Company originated two new investments and two follow-on investments totaling \$34.7 million in commitments. New investment transactions that occurred during the quarter ended June 30, 2019 are summarized as follows:

**iEnergizer Limited, \$15.0 million 1<sup>st</sup> Lien Senior Secured Debt:** iEnergizer is a leading global provider of high value-added, multi-channel content transformation solutions and high margin business process outsourcing solutions.

**Driven, Inc., \$12.0 million 1<sup>st</sup> Lien Senior Secured Debt:** Driven, Inc. is an eDiscovery consultancy and information management company that supports customers across the data life cycle primarily as it relates to litigation support.

**Vistar Media Inc., \$6.6 million add-on to 1<sup>st</sup> Lien Senior Secured Debt:** Vistar Media is a digital marketing firm servicing the digital out-of-home advertising industry.

**Zenfolio, Inc., \$1.1 million add-on to 1<sup>st</sup> Lien Senior Secured Debt:** Zenfolio, Inc. is a SaaS platform for professional and amateur photographers.

During the quarter ended June 30, 2019, the Company received full prepayment on one investment totaling \$20.0 million.

**Prism Spectrum Holdings LLC:** Proceeds of \$20.0 million, generating a realized gain of \$0.2 million and an IRR of 10.9%.

#### **First Fiscal Quarter 2020 Operating Results**

For the quarter ended June 30, 2019, Capital Southwest reported total investment income of \$15.8 million, compared to \$14.3 million in the prior quarter. The increase in investment income was attributable to an increase in average debt investments outstanding.

For the quarter ended June 30, 2019, total operating expenses (excluding interest expense) were \$4.3 million, compared to \$3.8 million in the prior quarter. The increase in expenses was primarily due to a one-time expense related to the acceleration of restricted stock award vesting upon the retirement of an employee, payroll taxes related to the annual employee bonus payment, as well as employee recruiting costs for a new hire during the quarter.

For the quarter ended June 30, 2019, interest expense was \$3.8 million, compared to \$3.3 million in the prior quarter. The increase in interest expense was due to increased average debt outstanding on the revolving credit facility and the amortization of \$0.2 million of remaining debt issuance costs associated with the ATM debt distribution agreement (as defined below).

For the quarter ended June 30, 2019, total pre-tax net investment income was \$7.7 million, compared to \$7.2 million in the prior quarter.

For the quarter ended June 30, 2019, tax expense remained flat at \$0.3 million, as compared to the prior quarter.

During the quarter ended June 30, 2019, Capital Southwest recorded total net realized and unrealized losses on investments of \$0.6 million, compared to total net realized and unrealized gains on investments of \$3.6 million in the prior quarter. For the quarter ended June 30, 2019, this included total net realized gains on investments of \$1.2 million and net unrealized depreciation on investments of \$1.9 million, of which \$1.7 million was the reversal of net unrealized appreciation recognized in prior periods due to realized gains noted above. The net increase in net assets resulting from operations was \$6.7 million for the quarter, compared to \$10.5 million in the prior quarter.

The Company's NAV at June 30, 2019 was \$18.58 per share, as compared to \$18.62 at March 31, 2019. The decrease in NAV per share from the prior quarter is primarily due to the supplemental dividend of \$0.10 per share.

#### **Liquidity and Capital Resources**

At June 30, 2019, Capital Southwest had approximately \$12.0 million in unrestricted cash and money market balances, \$151 million of total debt outstanding on its revolving credit facility and \$75.4 million, net of unamortized debt issuance costs, of the December 2022 Notes outstanding. As of June 30, 2019, Capital Southwest had \$140.6 million in available borrowings under the revolving credit facility. The debt to equity ratio at the end of the quarter was 0.69 to 1.

In December 2018, the Company entered into the Amended and Restated Senior Secured Revolving Credit Agreement (the "Amended and Restated Agreement"), and a related Amended and Restated Guarantee, Pledge and Security Agreement, to amend and restate its Senior Secured Revolving Credit Facility (the "Credit Facility"). The Amended and Restated Agreement (1) increased the total commitments by \$60 million from \$210 million to an aggregate total of \$270 million, provided by a diversified group of nine lenders, (2) increased the Credit Facility's accordion feature to \$350 million under the Credit Facility from new and existing lenders on the same terms and conditions as the existing commitments, (3) reduced the interest rate on borrowings from LIBOR plus 3.00% to LIBOR plus 2.50%, subject to certain conditions as outlined in the Amended and Restated Agreement, (4) reduced the minimum asset coverage with respect to senior securities representing indebtedness from 200% to 150% after the date on which such minimum asset coverage is permitted to be reduced by the Company under applicable law, and (5) extended the Credit Facility's revolving period from November 16, 2020 to December 21, 2022 and the final maturity was extended from November 16, 2021 to December 21, 2023.

On May 23, 2019, the Company entered into an Incremental Assumption Agreement, which increased the total commitments under the Credit Facility by \$25 million. The increase was executed under the accordion feature of the Credit Facility and increased total commitments from \$270 million to \$295 million.

On June 11, 2018, the Company entered into an "At-The-Market" ("ATM") debt distribution agreement, pursuant to which it may offer for sale, from time to time, up to \$50 million in aggregate principal amount of the December

2022 Notes through B. Riley FBR, Inc., acting as its sales agent. Sales of the December 2022 Notes may be made in negotiated transactions or transactions that are deemed to be "at the market offerings" as defined in Rule 415 under the Securities Act of 1933, as amended, including sales made directly on The Nasdaq Global Select Market, or similar securities exchanges or sales made through a market maker other than on an exchange at prices related to prevailing market prices or at negotiated prices.

During the three months ended June 30, 2019, the Company did not sell any December 2022 Notes. The Company has no current intention of issuing additional December 2022 Notes under this ATM debt distribution agreement. Therefore, during the three months ended June 30, 2019, the Company amortized \$0.2 million of the remaining debt issuance costs associated with the ATM debt distribution agreement, which is included in interest expense in the Consolidated Statement of Operations.

On March 4, 2019, the Company entered into separate equity distribution agreements with certain sales agents through which it may offer and sell, from time to time, shares of its common stock having an aggregate offering price of up to \$50,000,000 (the "Equity ATM Program"). During the quarter ended June 30, 2019, the Company sold 195,549 shares of its common stock under the Equity ATM Program at a weighted-average price of \$21.66 per share, raising \$4.2 million of gross proceeds. Net proceeds were \$4.1 million after commissions to the sales agents on shares sold. Cumulative to date, the Company has sold 459,205 shares of its common stock under the Equity ATM Program at a weighted-average price of \$21.55, raising \$9.9 million of gross proceeds.

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 June 30, 2019, I-45 SLF had \$155 million in borrowings outstanding under its credit facility.

#### **Share Repurchase Program**

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

During the quarter ended June 30, 2019, the Company did not repurchase any shares of the Company's common stock under the share repurchase program. Cumulative to date, the Company has repurchased a total of 46,363 shares at an average price of \$16.67 per share, including commissions paid. The Company currently has approximately \$9.2 million available for additional repurchases under the program.

### **Declared Dividend of \$0.50 Per Share for Quarter Ended September 30, 2019**

On July 31, 2019, the Board declared total dividends of \$0.50 per share for the quarter ended September 30, 2019, comprised of a Regular Dividend of \$0.40 per share and a Supplemental Dividend of \$0.10 per share.

The Company's dividend will be payable as follows:

#### **September 30, 2019 Dividend**

Amount Per Share: \$0.50  
Ex-Dividend Date: September 13, 2019  
Record Date: September 16, 2019  
Payment Date: September 30, 2019

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.

### **First Quarter 2020 Earnings Results Conference Call and Webcast**

Capital Southwest has scheduled a conference call on Tuesday, August 6, 2019, at 11:00 a.m. Eastern Time to discuss the first quarter 2020 financial results. You may access the call by dialing (866) 502-8274 and using the Conference ID 4229687 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/mmc/p/3pc3miyc>.

A telephonic replay will be available through August 13, 2019 by dialing (855) 859-2056 and using the Conference ID 4229687. 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-Q for the period ended June 30, 2019 to be filed with the Securities and Exchange Commission and Capital Southwest's First Fiscal Quarter 2020 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 \$329 million in net assets as of June 30, 2019. Capital Southwest is a middle market lending firm focused on supporting the acquisition and growth of middle market businesses with \$5 million 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 with respect to 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, 2019 and subsequent filings, including the "Risk Factors" sections therein, with the Securities and Exchange Commission for a more complete discussion of the risks and other factors 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

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

	June 30, 2019	March 31, 2019
	(Unaudited)	
<b>Assets</b>		
Investments at fair value:		
Non-control/Non-affiliate investments (Cost: \$334,669 and \$305,596, respectively)	\$ 331,045	\$ 304,663
Affiliate investments (Cost: \$80,790 and \$79,277, respectively)	83,625	80,905
Control investments (Cost: \$73,415 and \$93,182, respectively)	118,821	138,503
Total investments (Cost: \$488,874 and \$478,055, respectively)	533,491	524,071
Cash and cash equivalents	11,969	9,924
Receivables:		
Dividends and interest	10,105	9,252
Escrow	418	370
Other	1,099	1,244
Income tax receivable	143	183
Deferred tax asset	1,672	1,807
Debt issuance costs (net of accumulated amortization of \$1,998 and \$1,814, respectively)	3,401	3,364
Other assets	1,878	1,628
Total assets	\$ 564,176	\$ 551,843
<b>Liabilities</b>		
Notes (Par value: \$77,136 and \$77,136, respectively)	\$ 75,440	\$ 75,099
Credit facility	151,000	141,000
Other liabilities	5,688	6,708
Accrued restoration plan liability	3,048	3,073
Deferred income taxes	186	—
Total liabilities	235,362	225,880
<b>Commitments and contingencies (Note 11)</b>		
<b>Net Assets</b>		
Common stock, \$0.25 par value: authorized, 25,000,000 shares; issued, 20,036,569 shares at June 30, 2019 and 19,842,528 shares at March 31, 2019	5,009	4,961
Additional paid-in capital	285,925	281,205
Total distributable earnings	61,817	63,734
Treasury stock - at cost, 2,339,512 shares	(23,937)	(23,937)
Total net assets	328,814	325,963
Total liabilities and net assets	\$ 564,176	\$ 551,843
Net asset value per share (17,697,057 shares outstanding at June 30, 2019 and 17,503,016 shares outstanding at March 31, 2019)	\$ 18.58	\$ 18.62

**CAPITAL SOUTHWEST CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(Unaudited)

(In thousands, except shares and per share data)

	Three Months Ended	
	June 30,	
	2019	2018
<b>Investment income:</b>		
Interest income:		
Non-control/Non-affiliate investments	\$ 9,031	\$ 6,032
Affiliate investments	2,050	1,452
Control investments	265	159
Dividend income:		
Non-control/Non-affiliate investments	87	23
Affiliate investments	19	38
Control investments	3,913	3,014
Interest income from cash and cash equivalents	16	4
Fees and other income	418	385
Total investment income	<u>15,799</u>	<u>11,107</u>
Operating expenses:		
Compensation	2,021	1,910
Share-based compensation	837	475
Interest	3,806	2,373
Professional fees	626	488
Net pension expense	36	40
General and administrative	789	825
Total operating expenses	<u>8,115</u>	<u>6,111</u>
Income before taxes	7,684	4,996
Income tax expense	324	379
<b>Net investment income</b>	<u>\$ 7,360</u>	<u>\$ 4,617</u>
<b>Realized gain</b>		
Non-control/Non-affiliate investments	\$ 1,049	\$ 200
Affiliate investments	1	—
Control investments	167	18,619
<b>Total net realized gain on investments before income tax</b>	<u>1,217</u>	<u>18,819</u>
<b>Net unrealized (depreciation) appreciation on investments</b>		
Non-control/Non-affiliate investments	(2,972)	4,532
Affiliate investments	1,206	(671)
Control investments	85	(15,963)
Income tax (provision) benefit	(183)	319
<b>Total net unrealized (depreciation) appreciation on investments, net of tax</b>	<u>(1,864)</u>	<u>(11,783)</u>
<b>Net realized and unrealized (losses) gains on investments</b>	<u>\$ (647)</u>	<u>\$ 7,036</u>
<b>Net increase in net assets from operations</b>	<u>\$ 6,713</u>	<u>\$ 11,653</u>
<b>Pre-tax net investment income per share - basic and diluted</b>	<u>\$ 0.44</u>	<u>\$ 0.31</u>
<b>Net investment income per share – basic and diluted</b>	<u>\$ 0.42</u>	<u>\$ 0.29</u>
<b>Net increase in net assets from operations – basic and diluted</b>	<u>\$ 0.38</u>	<u>\$ 0.72</u>
<b>Weighted average shares outstanding – basic</b>	<u>17,535,924</u>	<u>16,180,291</u>
<b>Weighted average shares outstanding – diluted</b>	<u>17,535,924</u>	<u>16,201,443</u>



*Capital Southwest Corporation*

## *Q1 2020 Earnings Presentation*

August 6, 2019

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

# Important Notices

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- These materials and any presentation of which they form a part are neither an offer to sell, nor a solicitation of an offer to purchase, any securities of Capital Southwest.
- These materials and the presentations of which they are a part, and the summaries contained herein, do not purport to be complete and no obligation to update or otherwise revise such information is being assumed. Nothing shall be relied upon as a promise or representation as to the future performance of Capital Southwest. Such information is qualified in its entirety by reference to the more detailed discussions contained elsewhere in Capital Southwest's public filings with the Securities and Exchange Commission.
- There is no guarantee that any of the estimates, targets or projections illustrated in these materials and any presentation of which they form a part will be achieved. Any references herein to any of the Capital Southwest's past or present investments or its past or present performance, have been provided for illustrative purposes only. It should not be assumed that these investments were or will be profitable or that any future investments by Capital Southwest will be profitable or will equal the performance of these investments.
- The information contained herein has been derived from financial statements and other documents provided by the portfolio companies unless otherwise stated.
- Past performance is not indicative of future results. In addition, there can be no assurance that unrealized investments will be realized at the expected multiples shown as actual realized returns will depend on, among other factors, future operating results of each of Capital Southwest's current portfolio companies, the value of the assets and economic conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which Capital Southwest's expected returns are based. In many instances, Capital Southwest will not determine the timing or manner of sale of its portfolio companies.



# Forward-Looking Statements

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- This presentation contains forward-looking statements 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, 2019 and its subsequent filings with the Securities and Exchange Commission, including the "Risk Factors" section therein. 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 elected to be regulated as a BDC in 1988
- Publicly-traded on Nasdaq: Common Stock (“CSWC”) and December 2022 Notes (“CSWCL”)
- Internally Managed BDC with RIC tax treatment for U.S. federal income tax purposes
- December 2014: announced intent to spin-off industrial growth company (“CSW Industrials”; Nasdaq: “CSWI”) tax free
- January 2015: launched credit investment strategy
- September 2015: completed tax free spin off of CSWI
- 21 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$564MM as of June 30, 2019
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (Nasdaq: “MAIN”)



# Q1 2020 Highlights

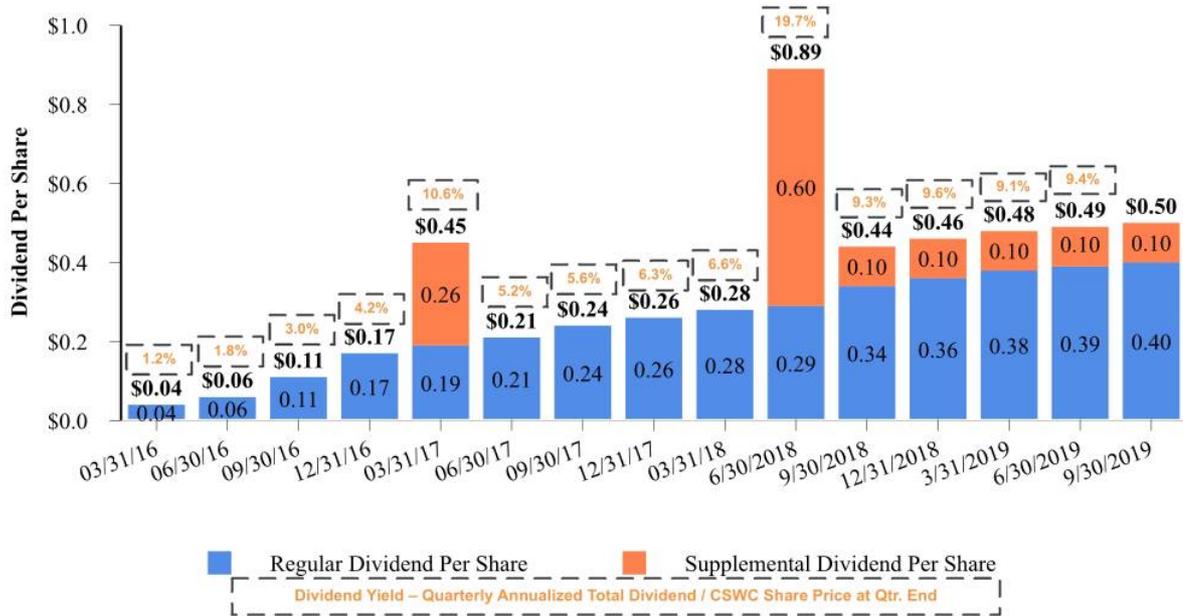
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## Financial Highlights

- Q1 2020 Pre-Tax Net Investment Income (“NII”) of \$7.7MM or \$0.44 per share
- Paid \$0.39 per share in Regular Dividends, plus \$0.10 per share Supplemental Dividend
  - Total Dividends for the quarter of \$0.49 per share
- Investment Portfolio at Fair Value increased to \$533MM from \$524MM in prior quarter
  - \$34.7MM committed to two new portfolio companies and two add-ons
  - \$20.0MM in proceeds from exit of one portfolio company, generating a realized gain of \$0.2MM and IRR of 10.9%
- Received \$2.9MM dividend from I-45 SLF, an annualized yield of 17.7% at fair value
  - Up from \$2.5MM in prior quarter
- Raised \$4.2MM in gross proceeds through Equity ATM Program during the quarter
  - Sold 195,549 shares at a weighted average price of \$21.66 per share (1.17x NAV per share)
  - Cumulatively, raised \$9.9MM in gross proceeds at a weighted average price of \$21.55 per share since inception of the Equity ATM Program in March 2019
- Upsized Revolving Credit Facility by \$25MM to \$295MM in commitments in May 2019
- \$140.6MM available on Credit Facility and \$12.0MM in cash and cash equivalents as of quarter end

# Track Record of Increasing Dividends Continues

- In the last twelve months ending 6/30/19, CSWC generated \$1.62 per share in Pre-Tax NII and paid out \$1.47 per share in regular dividends
  - Fifteen consecutive quarters of regular dividend per share growth
- Cumulative Regular Dividend Coverage of 105% since the 2015 spin-off
- Announced Supplemental Dividend Program in June 2018
  - Expect to pay \$0.10 per share Supplemental Dividend per quarter going forward, subject to Board approval



# 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 2.0x – 4.0x Debt to EBITDA through CSWC debt position
- 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 3.0x – 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

# Strong Track Record and Growing First Lien Credit Portfolio

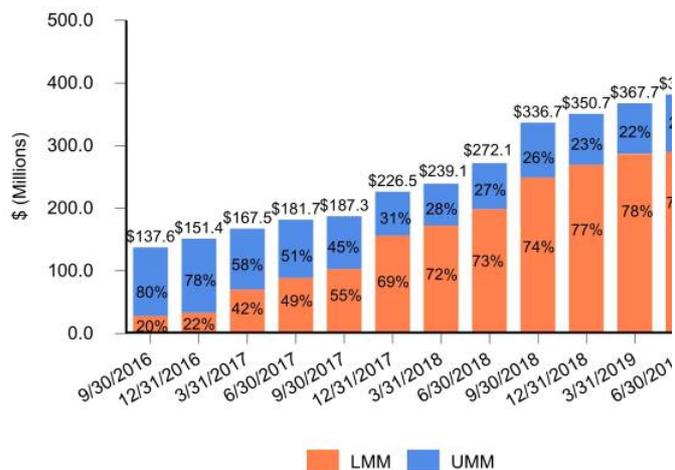
## CSWC Credit Portfolio heavily weighted towards First Lien and LMM Investments

- First Lien and LMM Investments have increased to 87% and 76% of the credit portfolio, respectively, as of 6/30/19

**Credit Portfolio Heavily Weighted to First Lien**



**Robust LMM Credit Portfolio Growth**



# CSWC Originations - Q1 2020

**\$34.7MM in new committed investments during the quarter (all funded at close) at a weighted average debt YTM of 11.1%**

Portfolio Origination		Q1 2020						
Name	Industry	Type	Market	Total Debt Funded at Close (\$000s)	Total Equity Funded at Close (\$000s)	Unfunded Commitments at Close (\$000s)	Debt Spread over LIBOR	Debt Maturity
Vistar Media, Inc.	Media, Marketing & Entertainment	1st Lien / Warrants	LMM	\$6,600	\$0	\$0	10.00%	1
Zenfolio, Inc.	Business Services	1st Lien	LMM	\$1,108	\$0	\$0	9.00%	1
iEnergizer Limited	Business Services	1st Lien	UMM	\$15,000	\$0	\$0	6.00%	9
Driven, Inc.	Business Services	1st Lien	LMM	\$12,000	\$0	\$0	8.00%	1
<b>Total</b>				<b>\$34,708</b>	<b>\$0</b>	<b>\$0</b>	<b>7.5%</b>	

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

# Track Record of CSWC Exits Continues

*\$20.0MM in proceeds from one exit during the quarter*

- Exited Prism Spectrum Holdings generating a realized gain of \$0.2MM and IRR of 10.88%
- Cumulative IRR of 15.7% on 26 portfolio exits generating \$181.9MM in proceeds since launch of credit strategy in January 2015

Portfolio Repayments and Exits		Q1 2020				
Name	Industry	Type	Market	Net Proceeds (\$000)	Realized Gain (\$000s)	IRR
Prism Spectrum Holdings	Environmental Services	1st Lien / Equity	LMM	\$20,000	\$226	10.88%
<b>Total / Weighted Average</b>				<b>\$20,000</b>	<b>\$226</b>	<b>10.9%</b>

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

# CSWC Portfolio Asset Mix by Market

Maintaining conservative portfolio leverage while receiving attractive risk adjusted returns

Investment Portfolio - Statistics Q1 2020		
(In Thousands)	Lower Middle Market <sup>(1)</sup>	Upper Middle Market
Number of Portfolio Companies	26	11
Total Cost	\$324,025	\$96,849
Total Fair Value	\$376,985	\$91,693
Average Hold Size (at Cost)	\$12,463	\$8,804
% First Lien Investments (at Cost)	78.0%	84.8%
% Second Lien Investments (at Cost)	6.6%	15.2%
% Subordinated Debt Investments (at Cost)	4.5%	0.0%
% Equity (at Cost)	10.9%	0.0%
Wtd. Avg. Yield <sup>(2)(3)</sup>	12.2%	9.9%
Wtd. Avg. EBITDA of Issuer (\$MM's) <sup>(3)</sup>	\$8.8	\$65.6
Wtd. Avg. Leverage through CSWC Security <sup>(3)(4)</sup>	3.4x	3.4x

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

(1) At June 30, 2019, we had equity ownership in approximately 69.2% of our LMM 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 June 30, 2019, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments. 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.

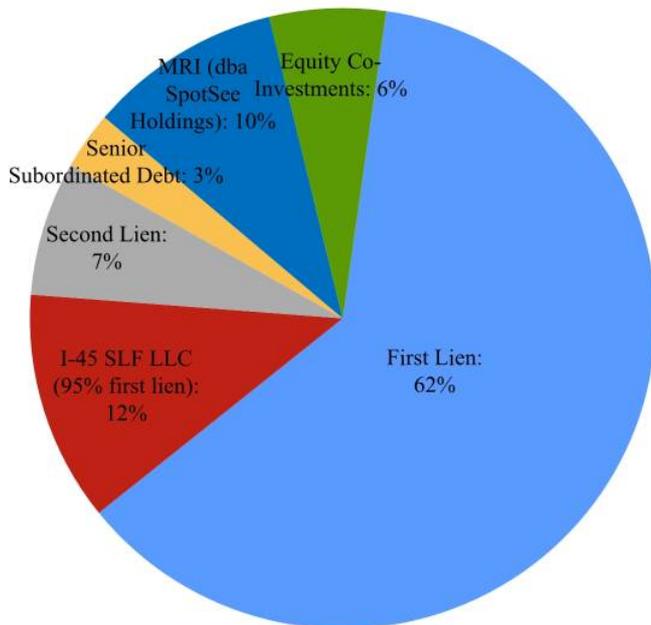
(3) Weighted average metrics are calculated using investment cost basis weighting

(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. For the quarter ended June 30, 2019, one portfolio company is excluded from this calculation due to reporting a debt to adjusted EBITDA ratio that was not meaningful

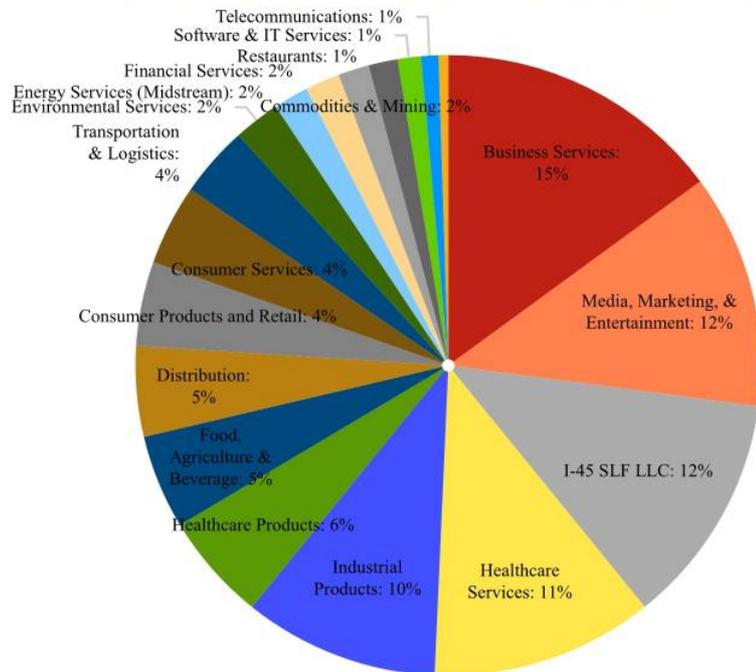
# CSWC Portfolio Mix as of 6/30/19 at Fair Value

Current Investment Portfolio of \$533MM continues to be diverse across industries

Current Investment Portfolio (By Type)



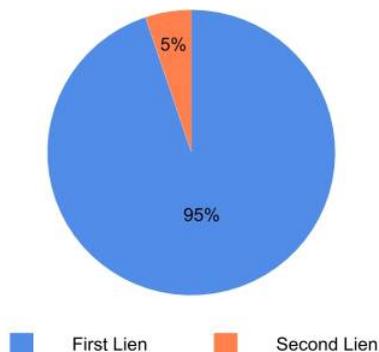
Current Investment Portfolio (By Industry)



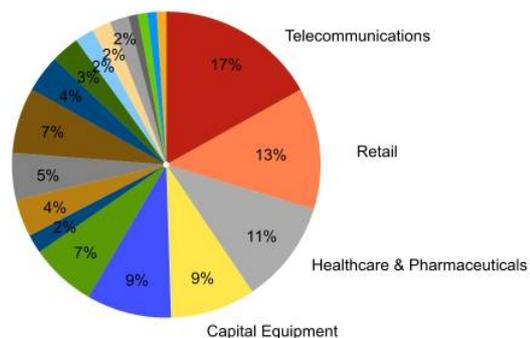
# I-45 Portfolio Overview

I-45 loan portfolio of \$235MM is 95% first lien with average hold size of 2.0% of the I-45 portfolio

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
(In Thousands)	9/30/2018	12/31/2018	3/31/2019	6/30/2019
Total Debt Investments at Fair Value	\$229,711	\$238,727	\$237,547	\$234,700
Number of Issuers	46	48	48	50
Wtd. Avg. Issuer EBITDA	\$72,253	\$69,738	\$68,109	\$70,807
Avg. Investment Size as a % of Portfolio	2.2%	2.1%	2.1%	2.0%
Wtd. Avg. Net Leverage on Investments <sup>(1)</sup>	3.8x	3.7x	3.6x <sup>(2)</sup>	3.9x <sup>(2)</sup>
Wtd. Avg. Spread to LIBOR	6.3%	6.3%	6.3%	6.4%
Wtd. Avg. Duration (Yrs)	4.4	4.2	3.9	4.0

(1) Through I-45 Security

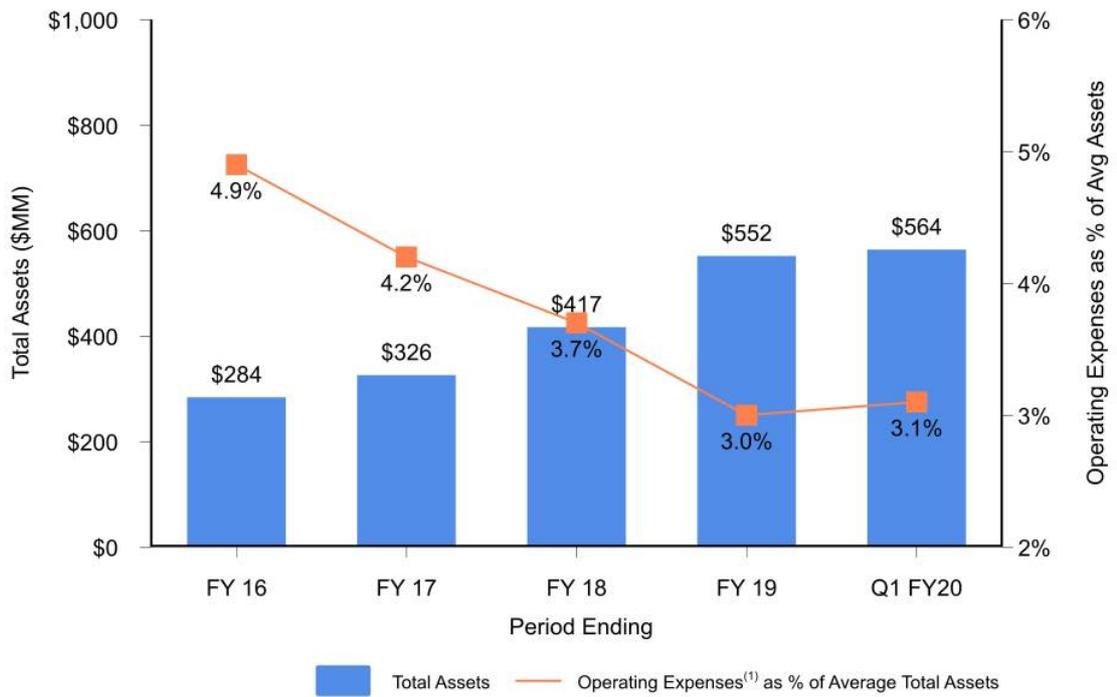
(2) One portfolio company is excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

# Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/18	Quarter Ended 12/31/18	Quarter Ended 3/31/19	Quarter Ended 6/30/19
<b>Investment Income</b>				
Interest Income	\$9,232	\$10,070	\$10,320	\$11,341
Dividend Income	3,158	3,352	3,342	4,019
Fees and Other Income	205	449	646	434
<b>Total Investment Income</b>	<b>\$12,595</b>	<b>\$13,871</b>	<b>\$14,308</b>	<b>\$15,794</b>
<b>Expenses</b>				
Cash Compensation	\$1,963	\$2,007	\$1,835	\$2,021
Share Based Compensation	482	607	707	837
General & Administrative	1,239	1,134	1,233	1,451
<b>Total Expenses (excluding Interest)</b>	<b>\$3,684</b>	<b>\$3,748</b>	<b>\$3,775</b>	<b>\$4,309</b>
Interest Expense	\$3,109	\$3,347	\$3,349	\$3,806
<b>Pre-Tax Net Investment Income</b>	<b>\$5,802</b>	<b>\$6,776</b>	<b>\$7,184</b>	<b>\$7,684</b>
<b>Taxes and Gain / (Loss)</b>				
Income Tax Benefit (Expense)	\$(256)	\$(101)	\$(312)	\$(324)
Net realized gain (loss) on investments	94	1,883	58	1,217
Net increase (decrease) in unrealized appreciation of investments	948	(4,238)	3,567	(1,864)
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>\$6,588</b>	<b>\$4,320</b>	<b>\$10,497</b>	<b>\$6,713</b>
Weighted Average Diluted Shares Outstanding	16,323	17,123	17,296	17,536
<b>Pre-Tax Net Investment Income Per Dil. Wtd. Average Share</b>	<b>\$0.36</b>	<b>\$0.40</b>	<b>\$0.42</b>	<b>\$0.44</b>

# Operating Leverage Trend

Continue to realize operating efficiencies of internally-managed structure migrating to a target operating leverage of sub-2.5%



Note: FY16 includes only the quarters after the 2015 spin-off. Q1 FY20 is quarterly annualized.  
 (1) Operating expenses exclude interest expense

# Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/18	Quarter Ended 12/31/18	Quarter Ended 3/31/19	Quarter Ended 6/30/19
<b>Assets</b>				
Portfolio Investments	\$491,601	\$496,740	\$524,071	\$533,491
Cash & Cash Equivalents	10,193	10,774	9,924	11,969
Deferred Tax Asset	2,060	2,294	1,807	1,672
Other Assets	12,653	13,973	16,041	17,044
<b>Total Assets</b>	<b>\$516,507</b>	<b>\$523,781</b>	<b>\$551,843</b>	<b>\$564,176</b>
<b>Liabilities</b>				
December 2022 Notes	\$73,407	\$74,960	\$75,099	\$75,440
Credit Facility	127,000	122,000	141,000	151,000
Other Liabilities	8,252	9,145	9,781	8,922
<b>Total Liabilities</b>	<b>\$208,659</b>	<b>\$206,105</b>	<b>\$225,880</b>	<b>\$235,362</b>
<b>Shareholders Equity</b>				
<b>Net Asset Value</b>	<b>\$307,848</b>	<b>\$317,676</b>	<b>\$325,963</b>	<b>\$328,814</b>
<b>NAV per Share<sup>(1)</sup></b>	<b>\$18.84</b>	<b>\$18.43</b>	<b>\$18.62</b>	<b>\$18.58</b>
<b>Debt to Equity</b>	<b>0.65x</b>	<b>0.62x</b>	<b>0.66x</b>	<b>0.69x</b>

(1) NAV per Share includes the impact of \$0.40 per share in supplemental dividends paid over the last 12 months

# Significant Unused Debt Capacity with Long-Term Duration

Earliest Debt Maturity occurs in July 2022

Facility	Total Commitments	Interest Rate	Maturity	Principal Drawn	Undrawn Com
Credit Facility <sup>(1)</sup>	\$295.0 MM	L + 2.50% subject to certain conditions	December 2023	\$151.0 MM	\$140.6 MM
December 2022 Notes (NASDAQ: "CSWCL") <sup>(2)</sup>	\$77.1 MM	5.95%	December 2022	\$77.1 MM	N/A
I-45 Credit Facility <sup>(4)</sup>	\$165.0 MM	L + 2.40%	July 2022	\$155.0 MM	\$10.0 MM

Long-Term Debt Obligations (Calendar Year)



- (1) The facility has an accordion feature that allows for an increase in total commitments up to \$350 MM. Principal Drawn is based upon outstanding balances as of 6/30/19
- (2) Redeemable at CSWC's option beginning December 2019. Principal drawn is based upon outstanding balances as of 6/30/19
- (3) Net of \$3.4 MM in letters of credit outstanding
- (4) CSWC owns 80% of the equity and 50% of the voting rights of I-45 SLF LLC with a joint venture partner

# Portfolio Statistics

Continuing to build a well performing credit portfolio

<i>(In Thousands)</i>	Quarter Ended 9/30/18	Quarter Ended 12/31/18	Quarter Ended 3/31/19	Quarter Ended 6/30/19
<b>Portfolio Statistics</b>				
Fair Value of Debt Investments	\$336,717	\$350,685	\$367,727	\$381,704
Average Debt Investment Hold Size	\$10,204	\$10,627	\$10,506	\$10,906
Fair Value of Debt Investments as a % of Par	99%	98%	97%	97%
% of Investment Portfolio on Non-Accrual (at Fair Value)	0.0%	1.7%	2.0%	1.5%
Weighted Average Investment Rating <sup>(1)</sup>	2.0	1.9	1.9	1.9
Weighted Average Yield on Debt Investments	11.61%	11.56%	11.58%	11.73%
Total Fair Value of Portfolio Investments	\$491,601	\$496,740	\$524,071	\$533,491
Weighted Average Yield on all Portfolio Investments <sup>(2)</sup>	11.02%	11.08%	10.96%	11.62%
Investment Mix (Debt vs. Equity) <sup>(3)(4)</sup>	79% / 21%	81% / 19%	80% / 20%	81% / 19%
Investment Mix (Yielding vs. Non-Yielding) <sup>(4)</sup>	92% / 8%	94% / 6%	94% / 6%	95% / 5%

*(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*

# Investment Income Detail

## Constructing a portfolio of investments with recurring cash yield

- Non-Cash and Non-Recurring investment income remain a minor portion of Total Investment Income

<i>(In Thousands)</i>	Quarter Ended 9/30/18	Quarter Ended 12/31/18	Quarter Ended 3/31/19	Quarter Ended 6/30/19
<b>Investment Income Breakdown</b>				
Cash Interest	\$8,815	\$9,561	\$9,760	\$10,526
Cash Dividends	3,112	3,295	3,282	3,959
PIK Income	93	211	298	424
Amortization of purchase discounts and fees	375	367	336	472
Management/Admin Fees	191	206	197	62
Prepayment Fees & Other Income	9	231	435	356
<b>Total Investment Income</b>	<b>\$12,595</b>	<b>\$13,871</b>	<b>\$14,308</b>	<b>\$15,799</b>
<b>Key Metrics</b>				
Cash Income as a % of Investment Income	96%	96%	96%	94%
% of Total Investment Income that is Recurring <sup>(1)</sup>	99%	98%	97%	95%

(1) Non-Recurring income principally made up of loan prepayment and amendment fees

# Key Financial Metrics

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

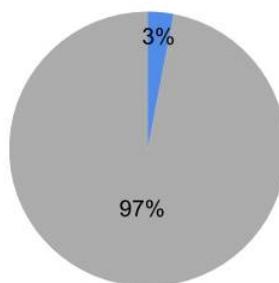
	Quarter Ended 9/30/18	Quarter Ended 12/31/18	Quarter Ended 3/31/19	Quarter En 6/30/19
<b>Key Financial Metrics</b>				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.36	\$0.40	\$0.42	\$0.44
Pre-Tax Net Investment Income Return on Equity (ROE) <sup>(1)</sup>	7.53%	8.40%	9.01%	9.41%
Realized Earnings Per Wtd Avg Diluted Share	\$0.35	\$0.50	\$0.40	\$0.49
Realized Earnings Return on Equity (ROE) <sup>(1)</sup>	7.32%	10.61%	8.70%	10.51%
Earnings Per Wtd Avg Diluted Share	\$0.40	\$0.25	\$0.61	\$0.38
Total Earnings Return on Equity (ROE) <sup>(1)</sup>	8.56%	5.36%	13.17%	8.22%
Regular Dividends per Share	\$0.34	\$0.36	\$0.38	\$0.39
Supplemental Dividends per Share	\$0.10	\$0.10	\$0.10	\$0.10
Total Dividends per Share	\$0.44	\$0.46	\$0.48	\$0.49
Dividend Yield <sup>(2)</sup>	9.27%	9.57%	9.13%	9.36%

(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

(2) Dividend Yield is calculated as the quarterly annualized Total Dividend divided by share price at quarter end

# Interest Rate Sensitivity

## Fixed vs. Floating Portfolio Exposure <sup>(1)</sup>



■ Fixed    ■ Floating

Change in Base Interest Rates	Illustrative Annual NII Change (\$'s)	Illustrative Annual NII Change (Per Share)
(100 bps)	\$(2,310,579)	\$(0.13)
(75 bps)	(1,787,054)	(0.10)
(50 bps)	(1,263,529)	(0.07)
(25 bps)	(692,713)	(0.04)
25 bps	692,713	0.04
50 bps	1,387,323	0.08
75 bps	2,085,706	0.12
100 bps	2,784,089	0.16

(1) Portfolio Exposure includes I-45 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 6/30/19, adjusted only for changes in Base Interest Rate. Base Interest Rate used in this analysis is 3-Month LIBOR of 2.32% at 6/30/19. The results of this analysis include the I-45 Senior Loan Facility which is comprised of 100% floating rate assets and liabilities

# Corporate Information

## Board of Directors

### Inside Directors

Bowen S. Diehl

### Independent Directors

David R. Brooks  
Christine S. Battist  
T. Duane Morgan  
Jack D. Furst  
William R. Thomas

## Senior Management

Bowen S. Diehl

*President & Chief Executive Officer*

Michael S. Sarnar

*Chief Financial Officer, Secretary & Treasurer*

## Fiscal Year End

March 31

## Independent Auditor

RSM US  
Chicago, IL

## Corporate Counsel

Eversheds Sutherland (US) LLP

## Transfer Agent

American Stock Transfer & Trust Company  
800-937-5449  
[www.amstock.com](http://www.amstock.com)

## Investor Relations

Michael S. Sarnar

Capital Southwest

214-884-3829

[msarnar@capitalsouthwest.com](mailto:msarnar@capitalsouthwest.com)

## Securities Listing

Nasdaq: "CSWC" (Common Stock)

Nasdaq: "CSWCL" (Notes)

## Corporate Offices & Website

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13th Floor

Dallas, TX 75240

<http://www.capitalsouthwest.com>

## Industry Analyst Coverage

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B. Riley FBR	Tim Hayes	Direct: 703-312-1819



