



Capital Southwest Corporation

Q3 2018 Earnings Presentation

February 6, 2018

Forward-Looking Statements

- This presentation contains forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995 relating to, among other things, the business, 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, 2017 and its subsequent filings with the Securities and Exchange Commission. Other unknown or unpredictable factors could also have a material adverse effect on Capital Southwest's actual future results, performance, or financial condition. As a result of the foregoing, readers are cautioned not to place undue reliance on these forward-looking statements. Capital Southwest does not assume any obligation to revise or to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, or otherwise, except as may be required by law.

Conference Call Participants

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 became a BDC in 1988
- Publicly-traded on NASDAQ: Common Stock (“CSWC”) and Notes (“CSWCL”)
- Internally Managed BDC with RIC status for tax purposes
- December 2014 announced intent to spin-off of industrial growth company (“CSW Industrials”; Nasdaq: CSWI) tax free
- January 2015 launched credit investment strategy
- September 2015 completed tax free spin off of CSWI
- 18 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$403 MM as of December 31, 2017
- Manage I-45 Senior Loan Fund (“I-45 SLF”) in partnership with Main Street Capital (Nasdaq: MAIN)

Q3 2018 Highlights

Financial Highlights

- Q3 2018 Pre-Tax Net Investment Income (“NII”) of \$4.3 MM or \$0.27 per share
- Declared and Paid Quarterly Dividend of \$0.26 per share
- Total Annualized Earnings Return on Equity of 13.9% for the quarter
- NAV per share increased to \$18.44 from \$18.26
- Net Portfolio Growth of 14%, increasing portfolio assets to \$367 MM from \$322 MM in prior quarter
 - ✓ \$71.1 MM committed in five new originations and two add-ons
 - ✓ \$21.1 MM proceeds received from three portfolio exits
- Received \$2.3 MM dividend from I-45 SLF, an effective yield of 13.5% at fair value
- \$145 MM available on Credit Facility and \$21 MM in cash and cash equivalents as of quarter end

Significant Progress in Capital Formation

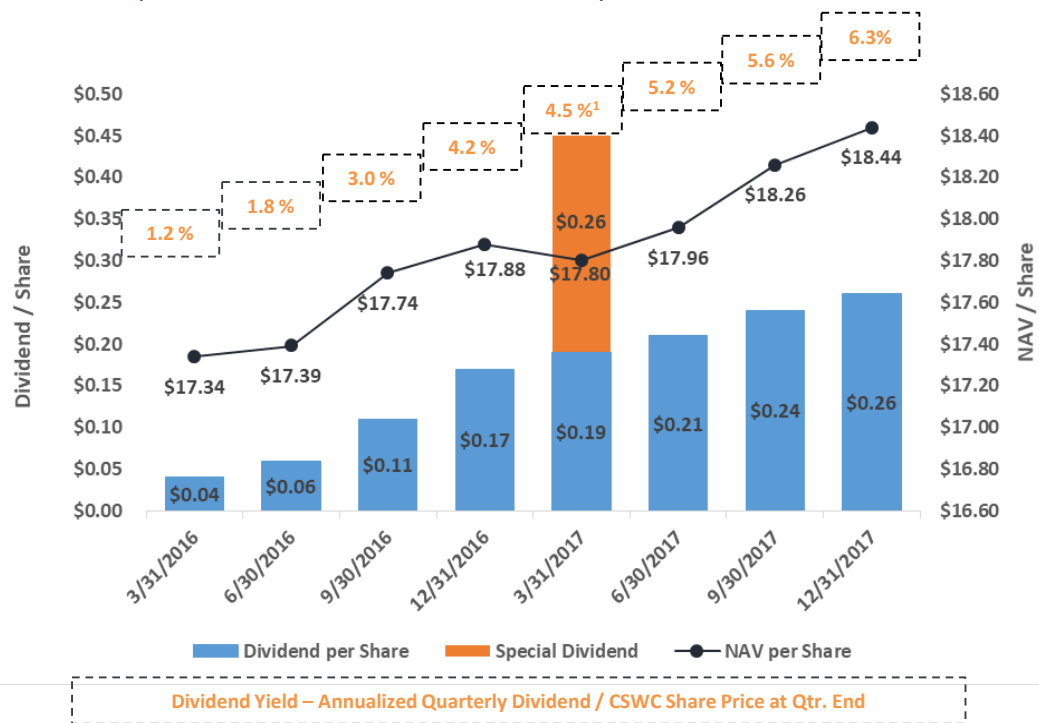
Capital Raising Highlights

- Amended ING Credit Facility
 - ✓ Increased the facility commitments to \$180 MM with an accordion to \$250 MM
 - ✓ Amended key terms, including reducing interest rate to L + 3.00% with a step-down and extending maturity to November 2021
- Raised \$57.5 MM in Notes Offering (“NASDAQ: CSWCL”)
 - ✓ 5.95% coupon, maturity in December 2022
 - ✓ At the time of issuance, CSWCL coupon represented lowest spread to 5 Year US Treasury Rate compared to recent Notes Offerings

Select BDC Baby Bonds - Spreads at Issuance						
Pricing Date	BDC	Ticker	Aggregate Value (\$MM)	Coupon	5Y UST Yield at Issuance	Spread to 5Y UST Yield
1/30/2018	Fidus Investment Corp.	FDUSL	\$43.5	5.875%	2.510%	3.365%
12/12/2017	Capital Southwest Corporation	CSWCL	\$57.5	5.950%	2.180%	3.770%
7/11/2017	TriplePoint Venture Growth BDC Corp.	TPVY	\$74.8	5.750%	1.920%	3.830%
8/16/2017	Stellus Capital Investment Corporation	SCA	\$48.9	5.750%	1.790%	3.960%
11/8/2017	MVC Capital, Inc.	MVCD	\$115.0	6.250%	2.010%	4.240%
8/9/2017	KCAP Financial, Inc.	KCAPL	\$77.4	6.125%	1.810%	4.315%
8/21/2017	Harvest Capital Credit Corp.	HCAPZ	\$28.8	6.125%	1.760%	4.365%
9/26/2017	Horizon Technology Finance Corporation	HTFA	\$37.4	6.250%	1.870%	4.380%
<i>Median (Excl. CSWCL)</i>			\$48.9	6.125%	1.870%	4.240%

Track Record of Dividend and NAV Growth Continues

- Over the past four quarters, CSWC has generated \$0.96 per share in Pre-Tax NII and paid out \$0.90 per share in regular dividends
 - ✓ LTM dividend coverage of 107% of Pre-Tax NII
 - ✓ Eight consecutive quarters of dividend per share growth
- In addition, paid out a Special Dividend of \$0.26 in Q4 2017 generated primarily from realized gains earned over prior 12 months
- Dividend Yield increased to 6.3% at 12/31/17 from 1.2% at 3/31/16
- NAV has increased to \$18.44 per share at 12/31/17 from \$17.34 per share at 3/31/16



(1) The Special Dividend of \$0.26 is not included in the Dividend Yield calculation

Funded Path to Target Leverage

Capitalization in place today to achieve target leverage of 0.75x - 0.85x

- \$145 MM currently undrawn on credit facility (\$180 MM total committed)
- Significant potential NII growth without additional capital required to be raised

Current Capitalization (12/31/17)	Debt Outstanding (\$MM)
Credit Facility Drawn	\$35.0
December 2022 Notes Outstanding	\$55.2
Total Debt Outstanding	\$90.2

Current Leverage (12/31/17)	0.30X
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Committed Availability on Credit Facility	\$145.0
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Pro Forma Leverage with Credit Availability Invested	0.79X
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Target Leverage	0.75X - 0.85X
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Two Pronged Investment Strategy

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

- Companies with EBITDA between \$3 MM and \$15 MM
- Typical leverage of 2x – 4x Debt to EBITDA through CSWC debt
- Commitment size up to \$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

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

- Companies typically have in excess of \$50 MM in EBITDA
- Typical leverage of 3x – 5.5x Debt to EBITDA through CSWC debt position
- Hold sizes generally \$5 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

Strong Quarter of CSWC Originations

\$71.1 MM in new committed investments during the quarter (\$66.1 MM funded) at a weighted average debt YTM of 11.4%

Q3 2018 Portfolio Originations						
Name	Industry	Type	Market	Total Commitment (in \$000s)	Debt Spread	Debt Yield to Maturity
Amware Add-On	Distribution	1st Lien	LMM	\$1,111	9.50%	17.7%
Elite SEM Add-On	Media, Marketing, & Entertainment	1st Lien / Equity	LMM	\$5,439	10.65% ⁽³⁾	12.8%
Delphi Health Solutions	Healthcare Services	1st Lien	LMM	\$7,500	7.50%	9.6%
LGM Pharma ⁽¹⁾	Healthcare Products	Revolver / 1st Lien / Equity	LMM	\$14,100	8.50%	10.7%
Clickbooth ⁽²⁾	Media, Marketing, & Entertainment	Revolver / 1st Lien	LMM	\$19,500	8.50%	10.9%
Capital Pawn	Consumer Products and Retail	1st Lien	LMM	\$12,922	9.50%	12.8%
ResearchNow	Business Services	2nd Lien	UMM	\$10,500	9.50%	10.9%
Total				\$71,072		11.4%

1. At close, \$3.0 MM Revolver was unfunded
2. At close, \$2.0 MM Revolver was unfunded
3. The investment is structured as a first lien last out term loan

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

Q3 2018 CSWC Portfolio Prepayments

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

- During the quarter, received \$21.1 MM in proceeds from three Upper Middle Market exits with a weighted average IRR of 13%
- Since launch of credit strategy in 2015, received \$97 MM in proceeds from 17 portfolio company exits with a weighted average IRR of 19.1%

Q3 2018 Portfolio Exits						
Name	Industry	Type	Market	Proceeds (in \$000s)	Realized Gain (in \$000s)	IRR
Redbox	Gaming & Leisure	1st Lien	UMM	\$7,000	\$187	13.8%
Digital Room	Paper & Forest Products	2nd Lien	UMM	\$7,070	\$124	15.1%
ResearchNow	Business Services	2nd Lien	UMM	\$7,000	\$72	10.8%
Total / Wtd. Avg.				\$21,070	\$383	13.2%

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

CSWC Portfolio Asset Mix by Market

Lower Middle Market 1st Lien portfolio growth continues

Investment Portfolio - Statistics at 12/31/17		
US\$ in 000s	Lower Middle Market ⁽¹⁾	Upper Middle Market
Number of Portfolio Companies	17	11
Total Cost	\$185,821	\$69,449
Total Fair Value	\$229,889	\$70,074
Average Hold Size (at Cost)	\$10,931	\$6,314
% First Lien Investments (at Cost)	73.4%	59.7%
% Second Lien Investments (at Cost)	0.0%	40.3%
% Subordinated Debt Investments (at Cost)	10.2%	0.0%
% Equity (at Cost)	16.4%	0.0%
Wtd. Avg. Yield ⁽²⁾⁽³⁾	11.5%	10.2%
Wtd. Avg. EBITDA of Issuer (\$MM's) ⁽³⁾	\$8.9	\$88.1
Wtd. Avg. Leverage through CSWC Security ^{(3) (4)}	3.4x	4.3x

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

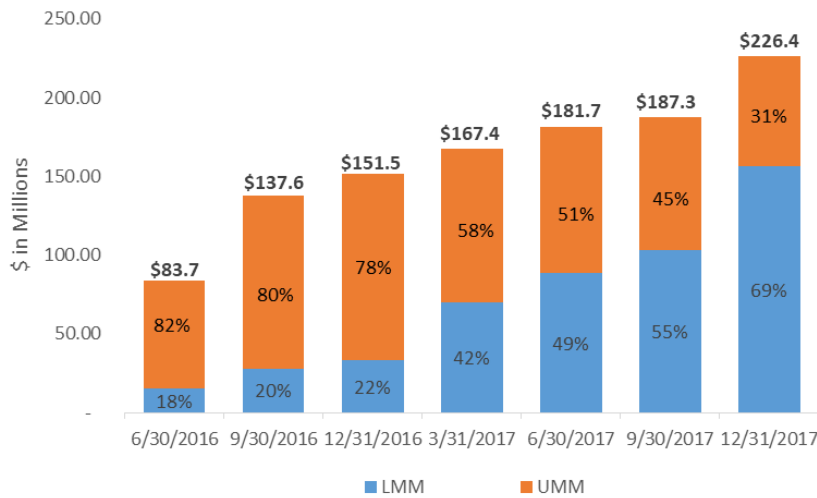
1. At December 31, 2017, we had equity ownership in approximately 70.6% of our LMM investments
2. The weighted-average annual effective yields were computed using the effective interest rates for all debt investments at cost as of December 31, 2017, including accretion of original issue discount but excluding fees payable upon repayment of the debt instruments and any debt investments on non-accrual status. As of December 31, 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

Robust Lower Middle Market First Lien Portfolio

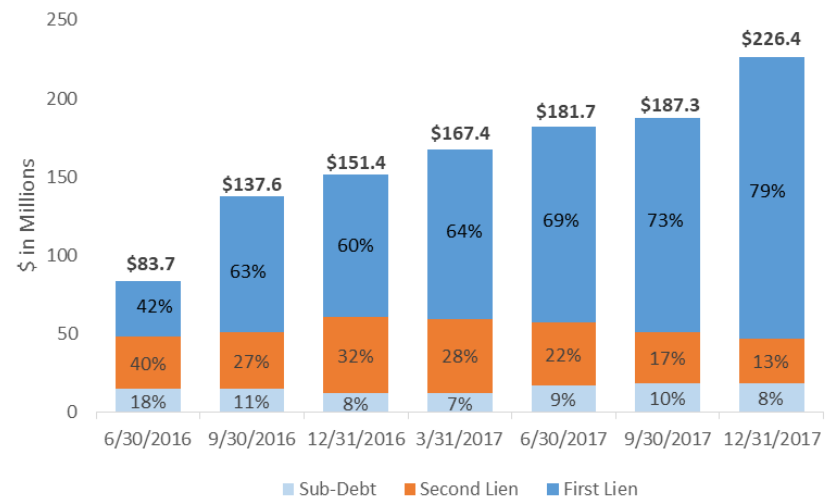
CSWC Balance Sheet Portfolio continues to migrate to LMM and 1st Lien Investments

- LMM Investments have increased to 69% of the credit portfolio at 12/31/17 from 18% at 6/30/16
- First Lien Investments have increased to 79% of the credit portfolio at 12/31/17 from 42% at 6/30/16

Robust LMM Portfolio Growth



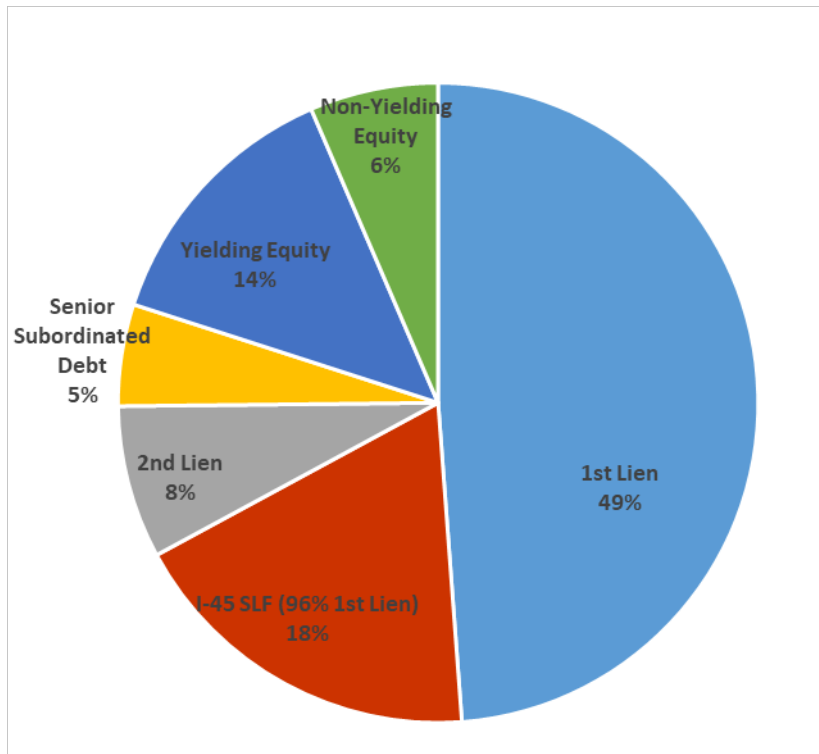
Originations Heavily Weighted to First Lien



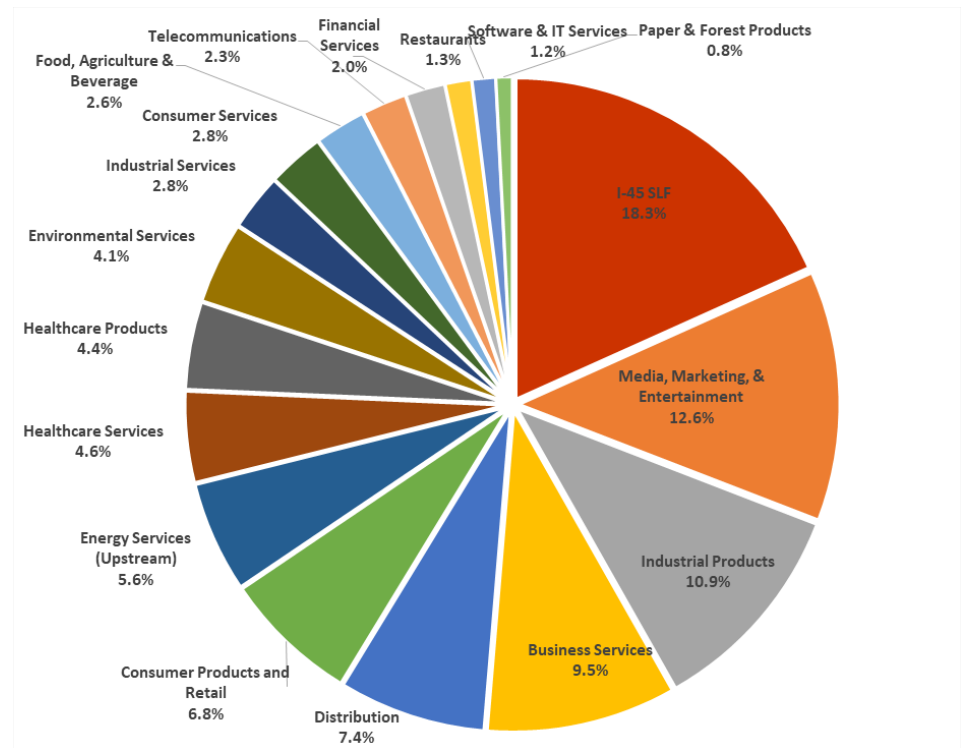
CSWC Portfolio Mix as of 12/31/17 at Fair Value

Current Investment Portfolio of \$367 MM continues to be granular and diverse

Current Investment Portfolio (By Type)



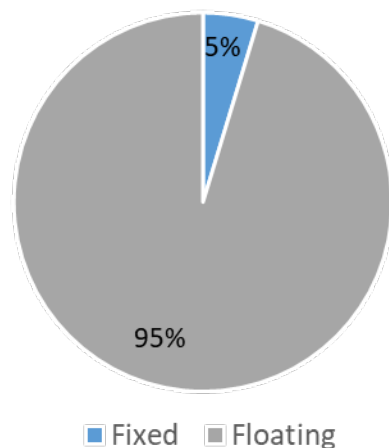
Current Investment Portfolio (By Industry)



Interest Rate Sensitivity

Debt Portfolio Exposure at 12/31/17 Well-Positioned for Rising Interest Rate Environment

Fixed vs. Floating Portfolio Composition (1)



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
50 bps	\$1,214,016	\$0.08
100bps	\$2,428,032	\$0.15
150bps	\$3,642,047	\$0.23
200bps	\$4,856,063	\$0.30

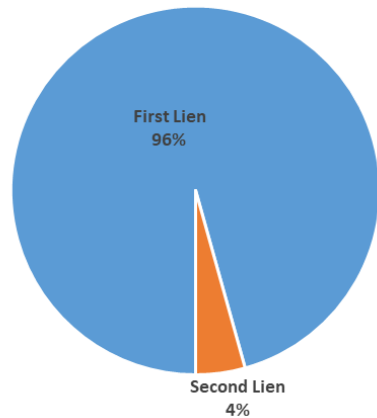
(1) Portfolio Composition includes I-45 assets pro rata as a % of CSWC's equity investment in the fund

Note: Illustrative change in NII is based on a projection of CSWC's existing debt investments as of 12/31/17, 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.

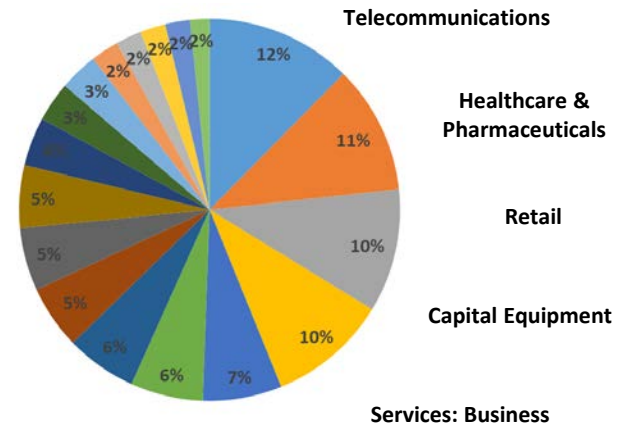
I-45 Portfolio Overview

I-45 loan portfolio of \$218 MM is 96% first lien with average hold size of 2.3%

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
	<u>3/31/2017</u>	<u>6/30/2017</u>	<u>9/30/2017</u>	<u>12/31/2017</u>
Total Debt Investments at Fair Value	\$200,243	\$209,863	\$223,807	\$217,964
Number of Issuers	43	46	46	44
Wtd. Avg. Issuer EBITDA	\$81,417	\$80,909	\$79,009	\$73,392
Avg. Investment Size as a % of Portfolio	2.3%	2.2%	2.2%	2.3%
Wtd. Avg. Net Leverage on Investments ⁽¹⁾	3.0x	3.5x	3.5x	3.3x
Wtd. Avg. Yield	7.9%	7.9%	7.7%	7.4%
Wtd. Avg. Duration (Yrs)	4.3	4.9	4.8	4.7

(1) Through I-45 Security

Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 3/31/17	Quarter Ended 6/30/17	Quarter Ended 9/30/17	Quarter Ended 12/31/17
Investment Income				
Interest Income	\$4,113	\$4,520	\$5,282	\$5,566
Dividend Income	\$3,002	\$3,004	\$3,088	\$3,149
Fees and Other Income	\$611	\$200	\$139	\$304
Total Investment Income	\$7,726	\$7,724	\$8,509	\$9,019
Expenses				
Cash Compensation	\$1,704	\$1,638	\$1,606	\$1,885
Share Based Compensation	\$382	\$368	\$384	\$479
General & Administrative	\$1,360	\$1,228	\$1,364	\$907
Spin-off Related Expenses	\$172	\$172	\$173	\$172
Total Expenses (excluding Interest)	\$3,618	\$3,406	\$3,527	\$3,443
Interest Expense	\$543	\$738	\$911	\$1,275
Pre-Tax Net Investment Income	\$3,565	\$3,580	\$4,071	\$4,301
Taxes and Gain / (Loss)				
Income Tax Benefit (Expense)	(\$284)	(\$144)	(\$134)	\$362
Net realized gain (loss) on investments	\$4,098	\$624	\$210	\$617
Net increase (decrease) in unrealized appreciation of investments	(\$1,402)	\$1,384	\$4,496	\$4,963
Net increase (decrease) in net assets resulting from operations	\$5,977	\$5,444	\$8,643	\$10,243
Weighted Average Diluted Shares Outstanding	16,044	16,072	16,078	16,176
Pre-Tax Net Investment Income Per Dil. Weighted Average Share	\$0.22	\$0.22	\$0.25	\$0.27
Quarterly Dividends per Share	\$0.19	\$0.21	\$0.24	\$0.26

Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017
Assets				
Portfolio Investments	\$286,880	\$306,582	\$321,860	\$367,120
Cash & Cash Equivalents	\$22,386	\$12,359	\$33,329	\$20,527
Deferred Tax Asset	\$2,017	\$1,858	\$1,846	\$2,080
Other Assets	\$14,469	\$10,391	\$11,635	\$13,123
Total Assets	\$325,752	\$331,190	\$368,670	\$402,850
Liabilities				
December 2022 Notes	\$0	\$0	\$0	\$55,236
Credit Facility	\$25,000	\$25,000	\$56,000	\$35,000
Payable for Unsettled Transaction	\$0	\$9,263	\$0	\$0
Other Liabilities	\$15,680	\$9,500	\$20,156	\$14,084
Total Liabilities	\$40,680	\$43,763	\$76,156	\$104,320
Shareholders Equity				
Net Asset Value	\$285,072	\$287,427	\$292,514	\$298,530
NAV per Share	\$17.80	\$17.96	\$18.26	\$18.44
Debt to Equity	0.09x	0.09x	0.19x	0.30x
Shares Outstanding at Period End	16,011	16,006	16,019	16,187

Portfolio Statistics

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

	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017
Portfolio Statistics				
Fair Value of Debt Investments	\$167,447	\$181,725	\$187,316	\$226,441
Average Debt Investment Hold Size	\$6,698	\$7,269	\$7,805	\$8,709
Fair Value of Debt Investments as a % of Par	99%	99%	99%	99%
% of Debt Portfolio on Non-Accrual (at Fair Value)	0.0%	0.0%	0.0%	0.0%
Weighted Average Investment Rating ⁽¹⁾	1.9	2.0	2.0	2.0
Weighted Average Yield on Debt Investments	10.28%	10.51%	10.71%	10.95%
Total Fair Value of Portfolio Investments	\$286,880	\$306,582	\$321,860	\$367,120
Weighted Average Yield on all Portfolio Investments ⁽²⁾	10.49%	10.43%	10.65%	10.55%
Investment Mix (Debt vs. Equity) ⁽³⁾⁽⁴⁾	75% / 25%	76% / 24%	74% / 26%	75% / 25%
Investment Mix (Yielding vs. Non-Yielding) ⁽⁴⁾	95% / 5%	95% / 5%	94% / 6%	94% / 6%

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

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

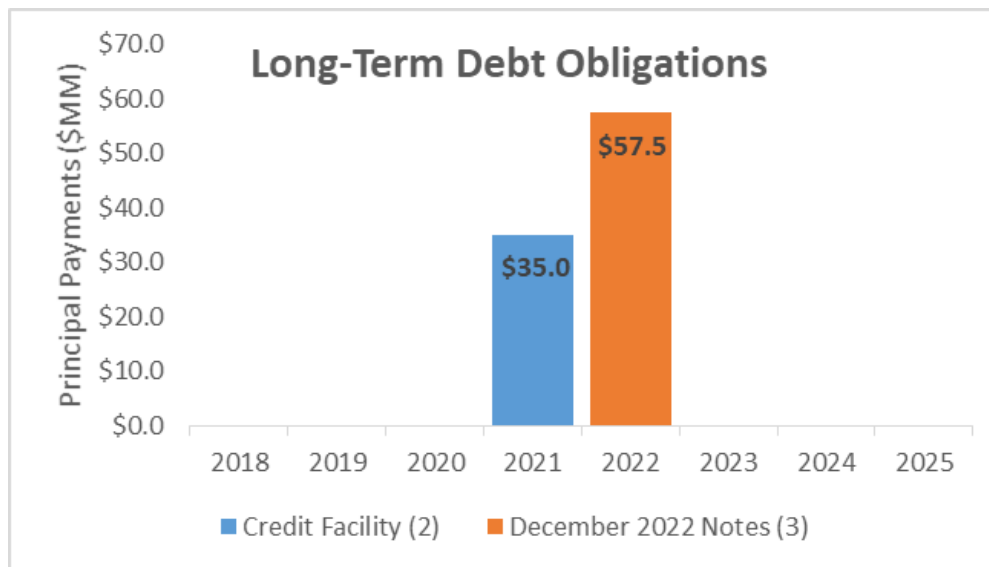
(3) Excludes CSWC equity investment in I-45 Senior Loan Fund

(4) At Fair Value

Significant Unused Debt Capacity with Long-Term Duration

Earliest Debt Maturity occurs in November 2021

Facility	Total Commitments	Interest Rate	Maturity	Principal Drawn
Credit Facility ⁽¹⁾	\$180.0 MM	L + 3.00% with Step-Down	November 2021	\$35.0 MM
December 2022 Notes ("NASDAQ: CSWCL")	\$57.5 MM	5.95%	December 2022	\$57.5 MM



(1) As of December 31, 2017, CSWC's credit facility had \$180.0 MM in total commitments, with an accordion feature which could increase total commitments up to \$250.0 MM

(2) Based upon outstanding balances as of December 31, 2017

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

Investment Income Detail

Constructing a portfolio of investments with recurring cash yield

- Recurring cash interest income continues to grow quarter over quarter
- Higher non-recurring prepayment fees in Q3 2018 versus previous quarter
- PIK income remains a minor portion of NII

<i>(In Thousands)</i>	Quarter Ended 3/31/17	Quarter Ended 6/30/17	Quarter Ended 9/30/17	Quarter Ended 12/31/17
Investment Income Breakdown				
Cash Interest	\$3,913	\$4,264	\$5,082	\$5,357
Cash Dividends	\$3,002	\$3,004	\$3,018	\$3,076
PIK Income	\$63	\$73	\$70	\$72
Amortization of purchase discounts and fees	\$136	\$183	\$200	\$209
Management/Admin Fees	\$115	\$128	\$139	\$146
Prepayment Fees & Other Income	\$497	\$72	\$0	\$159
Total Investment Income	\$7,726	\$7,724	\$8,509	\$9,019
Key Metrics				
Cash Income as a % of Investment Income	97%	97%	97%	97%
% of Total Investment Income that is Recurring ⁽¹⁾	90%	93%	97%	95%

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

Financial Highlights

Solid Earnings Growth as portfolio continues to perform

	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017	Quarter Ended 9/30/2017	Quarter Ended 12/31/2017
Financial Highlights				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.22	\$0.22	\$0.25	\$0.27
Annualized Pre-Tax Net Investment Income Return on Equity (ROE)	4.97%	5.00%	5.64%	5.82%
Realized Earnings Per Wtd Avg Diluted Share	\$0.46	\$0.25	\$0.26	\$0.33
Annualized Realized Earnings ROE	10.29%	5.68%	5.75%	7.15%
Earnings Per Wtd Avg Diluted Share	\$0.37	\$0.34	\$0.54	\$0.63
Annualized Earnings Return on Equity (ROE)	8.33%	7.61%	11.97%	13.87%
Quarterly Dividends Per Share	\$0.19	\$0.21	\$0.24	\$0.26
Special Dividends per Share	\$0.26	\$0.00	\$0.00	\$0.00
NAV Per Share	\$17.80	\$17.96	\$18.26	\$18.44

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

Senior Management

Bowen S. Diehl
President & Chief Executive Officer

Michael S. Sarner
Chief Financial Officer, Secretary & Treasurer

Fiscal Year End

March 31

Independent Auditor

RSM US
Chicago, IL

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Corporate Counsel

Jones Day / Eversheds Sutherland

Corporate Offices & Website

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Dallas, TX 75240

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Securities Listing

NASDAQ: CSWC (Common Stock)
NASDAQ: CSWCL (Notes)

Transfer Agent

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

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