



Capital Southwest Corporation

Q1 2020 Earnings Presentation

August 6, 2019

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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”) 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”)



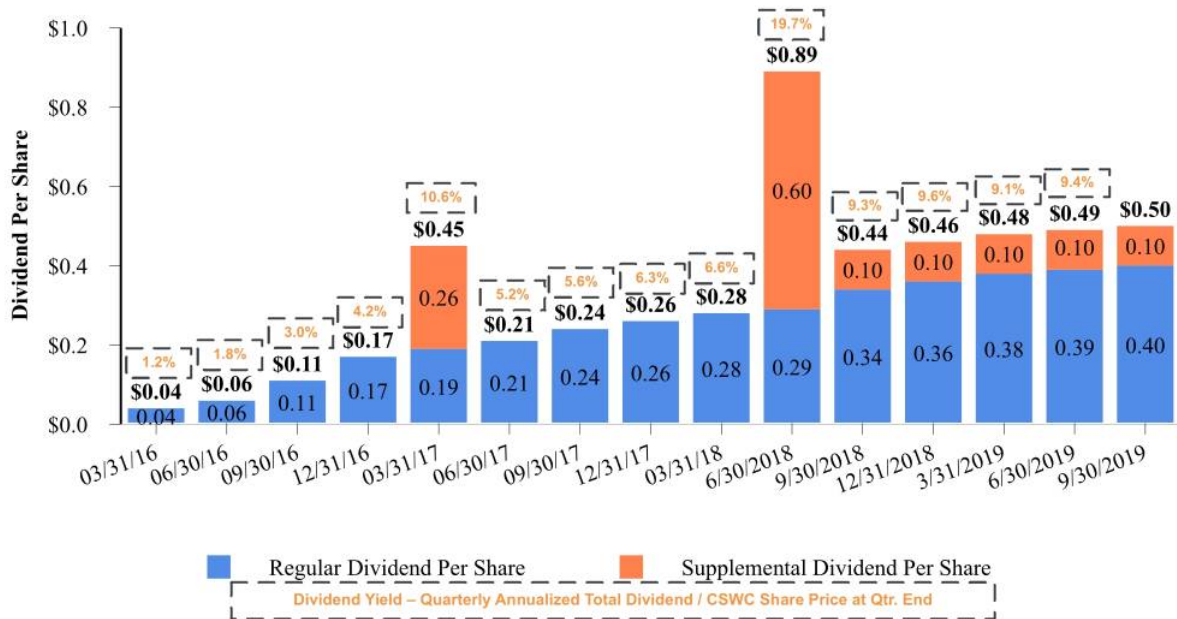
Q1 2020 Highlights

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

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

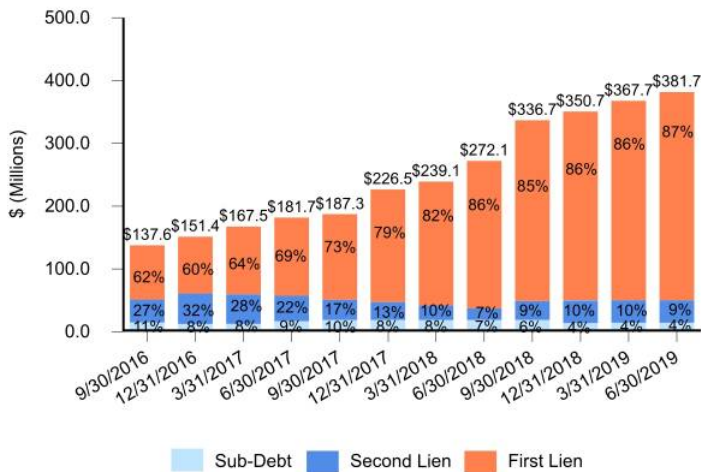
- Companies typically have in excess of \$50 MM in EBITDA
- Typical leverage of 3.0x – 5.5x Debt to EBITDA through CSWC debt position
- Hold sizes generally \$5 MM to \$15 MM
- Floating rate first and second lien debt securities
- More liquid assets relative to Lower Middle Market investments
- Provides flexibility to invest/divest opportunistically based on market conditions and liquidity position

Strong Track Record and Growing First Lien Credit Portfolio

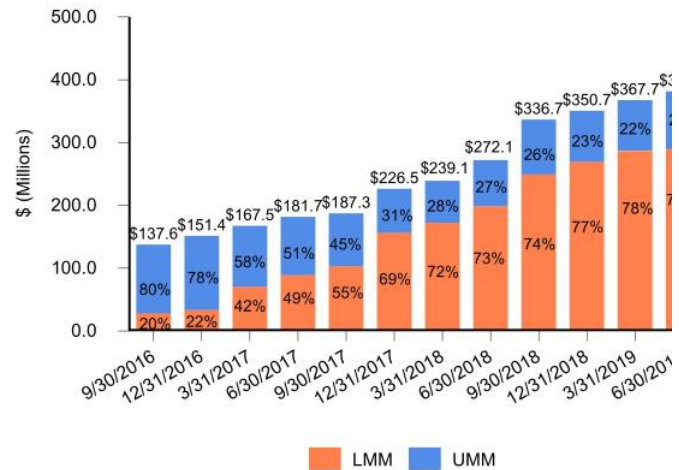
CSWC Credit Portfolio heavily weighted towards First Lien and LMM Investments

- 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
Total				\$34,708	\$0	\$0	7.5%	

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%
Total / Weighted Average				\$20,000	\$226	10.9%

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 ⁽¹⁾	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 ⁽²⁾⁽³⁾	12.2%	9.9%
Wtd. Avg. EBITDA of Issuer (\$MM's) ⁽³⁾	\$8.8	\$65.6
Wtd. Avg. Leverage through CSWC Security ⁽³⁾⁽⁴⁾	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.

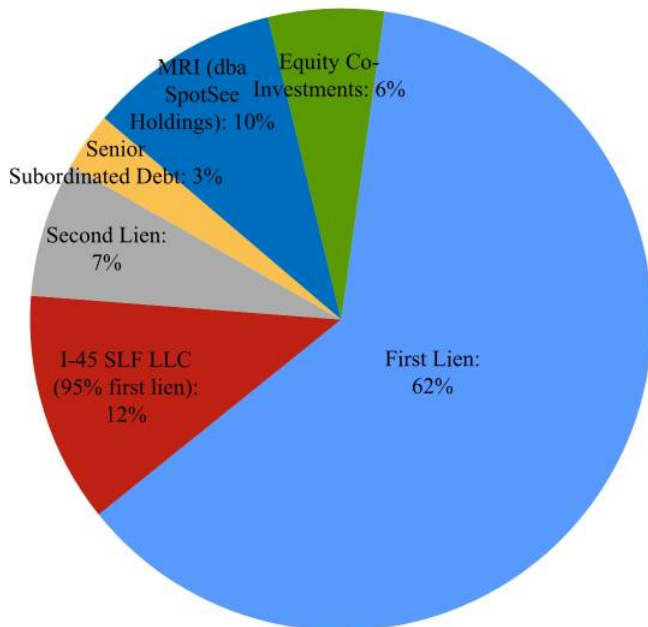
(3) Weighted average metrics are calculated using investment cost basis weighting

(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

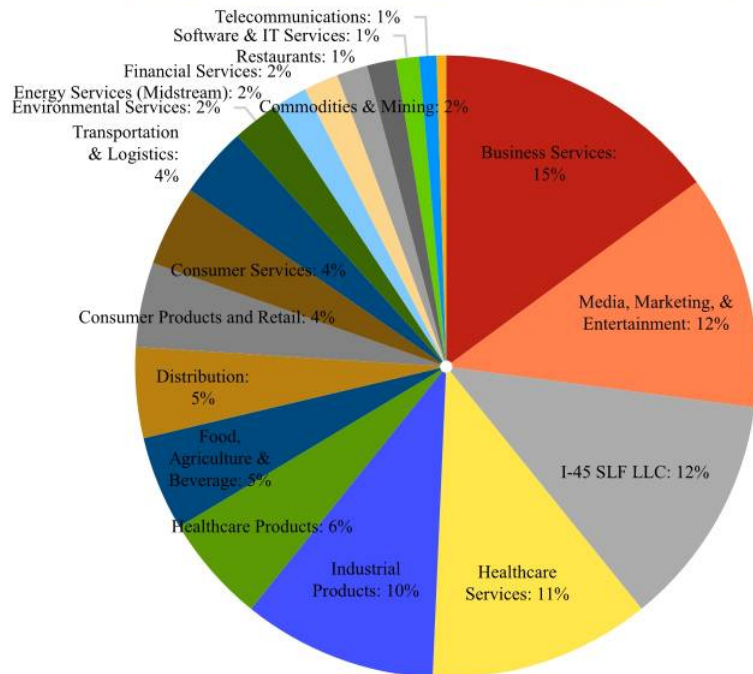
CSWC Portfolio Mix as of 6/30/19 at Fair Value

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

Current Investment Portfolio (By Type)



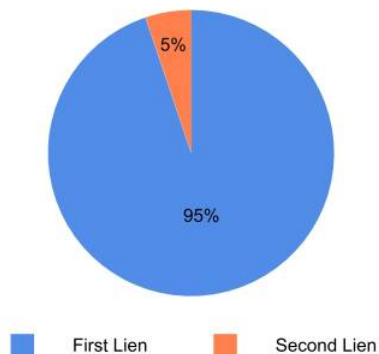
Current Investment Portfolio (By Industry)



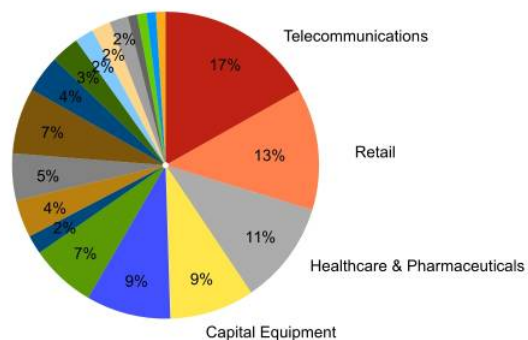
I-45 Portfolio Overview

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 ⁽¹⁾	3.8x	3.7x	3.6x ⁽²⁾	3.9x ⁽²⁾
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

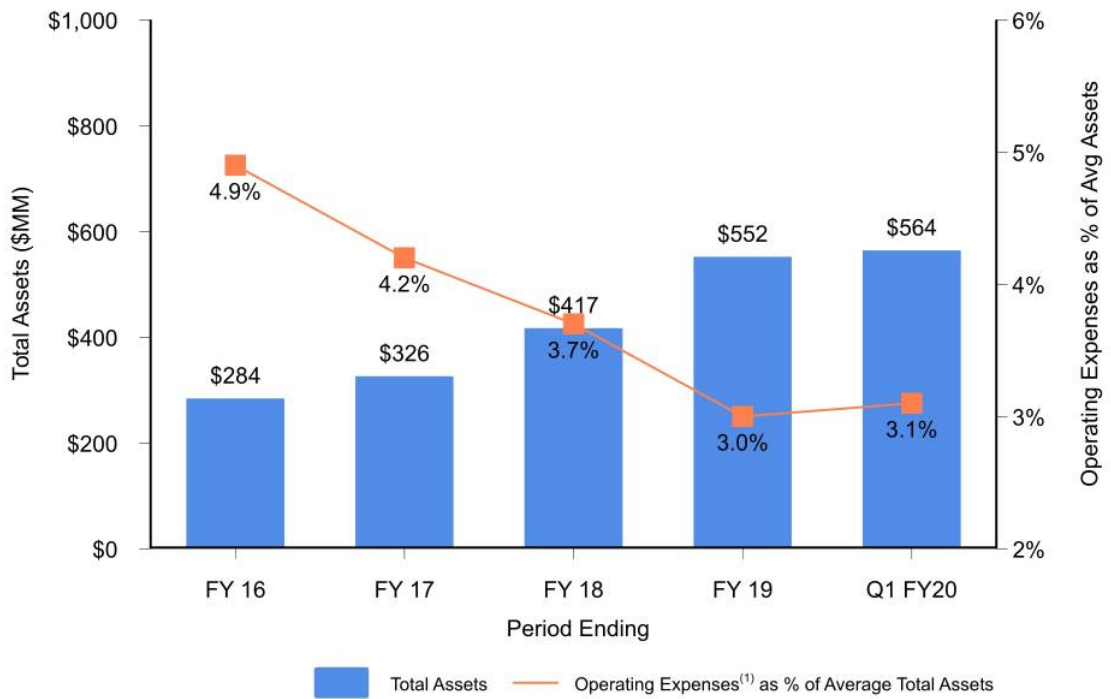
(2) One portfolio company is excluded from this calculation due to a reported debt to adjusted EBITDA ratio that was not meaningful

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
Investment Income				
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
Total Investment Income	\$12,595	\$13,871	\$14,308	\$15,794
Expenses				
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
Total Expenses (excluding Interest)	\$3,684	\$3,748	\$3,775	\$4,309
Interest Expense	\$3,109	\$3,347	\$3,349	\$3,806
Pre-Tax Net Investment Income	\$5,802	\$6,776	\$7,184	\$7,684
Taxes and Gain / (Loss)				
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)
Net increase (decrease) in net assets resulting from operations	\$6,588	\$4,320	\$10,497	\$6,713
Weighted Average Diluted Shares Outstanding	16,323	17,123	17,296	17,536
Pre-Tax Net Investment Income Per Dil. Wtd. Average Share	\$0.36	\$0.40	\$0.42	\$0.44

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
Assets				
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
Total Assets	\$516,507	\$523,781	\$551,843	\$564,176
Liabilities				
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
Total Liabilities	\$208,659	\$206,105	\$225,880	\$235,362
Shareholders Equity				
Net Asset Value	\$307,848	\$317,676	\$325,963	\$328,814
NAV per Share⁽¹⁾	\$18.84	\$18.43	\$18.62	\$18.58
Debt to Equity	0.65x	0.62x	0.66x	0.69x

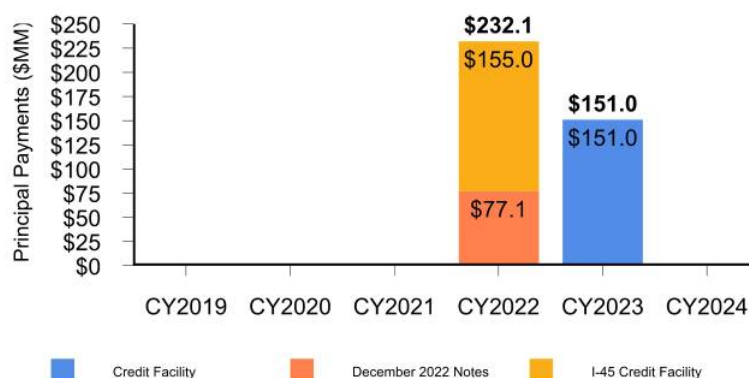
(1) NAV per Share includes the impact of \$0.40 per share in supplemental dividends paid over the last 12 months

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 ⁽¹⁾	\$295.0 MM	L + 2.50% subject to certain conditions	December 2023	\$151.0 MM	\$140.6 MM
December 2022 Notes (NASDAQ: "CSWCL") ⁽²⁾	\$77.1 MM	5.95%	December 2022	\$77.1 MM	N/A
I-45 Credit Facility ⁽⁴⁾	\$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
Portfolio Statistics				
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 ⁽¹⁾	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 ⁽²⁾	11.02%	11.08%	10.96%	11.73%
Investment Mix (Debt vs. Equity) ⁽³⁾⁽⁴⁾	79% / 21%	81% / 19%	80% / 20%	81% / 19%
Investment Mix (Yielding vs. Non-Yielding) ⁽⁴⁾	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
Investment Income Breakdown				
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	211
Prepayment Fees & Other Income	9	231	435	207
Total Investment Income	\$12,595	\$13,871	\$14,308	\$15,799
Key Metrics				
Cash Income as a % of Investment Income	96%	96%	96%	94%
% of Total Investment Income that is Recurring ⁽¹⁾	99%	98%	97%	96%

(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

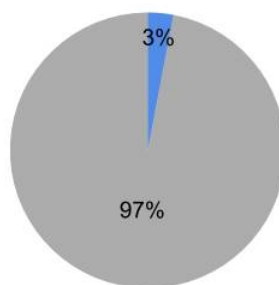
	Quarter Ended 9/30/18	Quarter Ended 12/31/18	Quarter Ended 3/31/19	Quarter En 6/30/19
Key Financial Metrics				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.36	\$0.40	\$0.42	\$0.44
Pre-Tax Net Investment Income Return on Equity (ROE) ⁽¹⁾	7.53%	8.40%	9.01%	9.41%
Realized Earnings Per Wtd Avg Diluted Share	\$0.35	\$0.50	\$0.40	\$0.49
Realized Earnings Return on Equity (ROE) ⁽¹⁾	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) ⁽¹⁾	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 ⁽²⁾	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 ⁽¹⁾



■ 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

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Securities Listing

Nasdaq: "CSWC" (Common Stock)
Nasdaq: "CSWCL" (Notes)

Industry Analyst Coverage

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Ladenburg Thalmann	Mickey M. Schleien, CFA	Direct: 305-572-4131
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B. Riley FBR	Tim Hayes	Direct: 703-312-1819



