



*Capital Southwest Corporation*

## *Q2 2017 Earnings Presentation*

November 8, 2016

# 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 preceded or followed by or that include the words "believe," "expect," "intend," "plan," "should" or similar words, phrases or expressions or the negative thereof, or any other statements that are not historical statements are forward-looking statements. These statements are made on the basis of the current beliefs, expectations and assumptions of the management of Capital Southwest. 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.
- In light of these risks, uncertainties, assumptions, and other factors inherent in forward-looking statements, actual results may differ materially from those discussed in this presentation. Other unknown or unpredictable factors could also have a material adverse effect on Capital Southwest's actual future results, performance, or achievements. For a further discussion of these and other 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, 2016 and its subsequent filings with the Securities and Exchange Commission. As a result of the foregoing, readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this presentation. Capital Southwest does not assume any obligation revise or to update these forward-looking statements to reflect any 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 has refocused its investment strategy to become a lender to middle-market companies across the capital structure*

- CSWC was formed in 1961, and became a BDC in 1988
- Publicly-traded on Nasdaq under CSWC ticker
- Internally-managed BDC with RIC status for tax purposes
- In December 2014, announced split into two separate companies with spin-off of industrial growth company (“CSW Industrials”; Nasdaq: CSWI) which was completed September 30<sup>th</sup>, 2015
- 16 employees based in Dallas, Texas
- Total Assets of \$307 MM as of September 30<sup>th</sup>, 2016
- CSWC has made significant strides towards rotating its investment portfolio from equity to credit

# CSWC Corporate Strategy

---

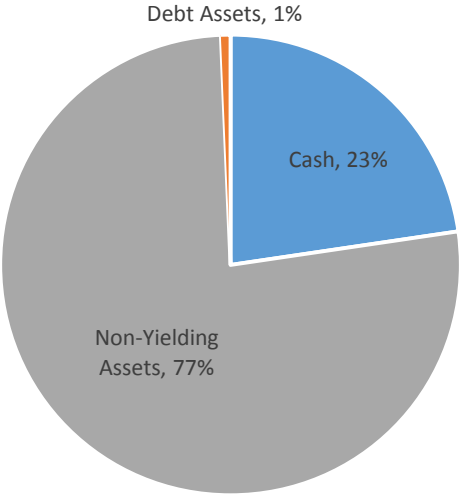
- Building a BDC that pays shareholders attractive and sustainable dividends by establishing:
  - A portfolio of investments balanced between liquid and illiquid asset classes
  - A portfolio of predominantly cash generating loans
  - An investment discipline focused on granularity and diversity across asset classes
  - Consistent NAV per share growth through selective equity co-investments
  - A match of fixed and floating rates with financing sources
- Maintaining a shareholder friendly Internally Managed structure which:
  - Aligns management incentives with long term sustainable shareholder value creation
  - Incurs lower operating expenses versus the Externally Managed Structure
  - Historically has rewarded performing Internally Managed BDCs with price to book premiums of 0.5x versus Externally Managed peers
- Continuing to execute on our I-45 SLF joint venture with Main Street which:
  - Enhances CSWC origination capabilities in the middle market
  - Grows recurring cash income by investing in a pool of granular and diversified larger middle market first lien loans
  - Allows an appropriate 2:1 leverage, given the asset class, while remaining outside BDC regulatory leverage
  - Cultivates relationships with financial institutions within the Senior Loan Fund credit facility
- Pursuing an SBIC License and participation in the Debenture Program to further capitalize our smaller lower middle market investment strategy

# Portfolio Rotation Focused on Credit

- Since June 2014, CSWC has transformed its investment portfolio increasing income earning assets from 1% of the investable portfolio to 75%
  - Exited 22 legacy portfolio equity investments, generating \$229 MM in proceeds
  - Invested \$151 MM in 25 middle-market credit investments on balance sheet
  - Invested \$186 MM in 40 credits within I-45 Senior Loan Fund (“I-45”)

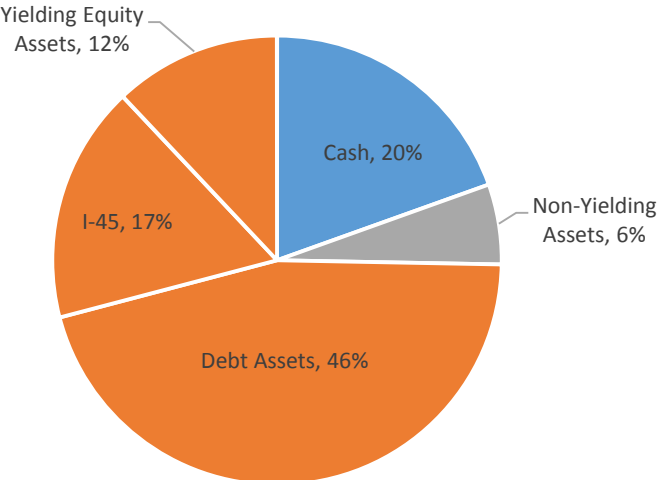
**6/30/2014 (excl. CSWI Companies)**

**1% of Total Assets Generating Recurring Income**



**9/30/2016 Investable Assets**

**75% of Total Assets Generating Recurring Income**



# *Two Pronged Investment Strategy*

---

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

- Companies with EBITDA greater than \$3 MM
- Typically leverage of 2x – 4x Debt to EBITDA through CSWC debt
- Commitment size up to \$20 million with hold sizes of \$5 MM to \$15 MM
- Originate both Sponsored and Non-sponsored debt investments
- Securities include first lien, unitranche, second lien and subordinated debt
- Non-control equity co-investments alongside debt investments

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

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

# Q2 2017 Highlights

---

## Financial Highlights

- Q2 2017 Pre-Tax Net Investment Income of \$1.8 MM or \$0.11 per weighted average diluted share
- Paid quarterly dividend of \$0.11 per share
- Closed \$100 MM ING led Credit Facility with five bank syndicate
  - 4 year facility with cost of funding of L + 325
  - Includes accordion up to \$150 MM
- Increased Investment Portfolio to \$238 MM from \$176 MM
  - \$54 MM in net investments added during the quarter
- Increased I-45 Senior Loan Fund investment portfolio to \$173 MM from \$134 MM
  - Increased Deutsche Bank led Credit Facility commitments to \$145 MM from \$100 MM by adding two new syndicate banks
  - I-45 distributed \$1.3 MM dividend to CSWC during the quarter
- \$58 MM in cash available for investment activity as of quarter end



# Financial Highlights

	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/2016
<b>Financial Highlights</b>				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	(\$0.04)	\$0.04	\$0.06	\$0.11
Pre-Tax Net Investment Income Return on Equity (ROE)	-0.92%	1.03%	1.34%	2.54%
Dividends Per Share	\$0.00	\$0.04	\$0.06	\$0.11
Earnings Per Wtd Avg Diluted Share	(\$0.07)	\$0.16	\$0.17	\$0.44
Earnings Return on Equity (ROE)	-1.67%	3.67%	3.93%	9.87%
NAV Per Share	\$17.22	\$17.34	\$17.39	\$17.74
Cash & Cash Equivalents	\$143,680	\$95,969	\$96,957	\$57,840
Debt to Equity	0.0x	0.0x	0.0x	0.0x

# Q2 2017 Portfolio Originations

Strong portfolio growth with \$55 MM in new investments originated in Q2 2017 at a weighted average YTM of 9.8%

Q2 2017 Portfolio Originations						
Name	Industry	Type	Market Segment	Par Value	Coupon	Yield to Maturity
Infogroup	Software & IT Services	1st Lien	UMM	\$3,204	L + 5.5% (1.5% Floor)	8.3%
Imagine! Print Solutions	Media, Marketing, & Entertainment	1st Lien	UMM	\$900	L + 6.0% (1.0% Floor)	7.3%
Amware Fulfillment, LLC	Transportation & Logistics	1st Lien	LMM	\$13,400	L + 9.5% (1.0% Floor)	11.3%
Digital River	Software & IT Services	1st Lien	UMM	\$2,400	L + 6.5% (1.0% Floor)☐	7.5%
AG Kings	Food, Agriculture & Beverage	1st Lien	UMM	\$10,000	L + 9.0% (1.0% Floor)	11.6%
California Pizza Kitchen	Restaurants	1st Lien	UMM	\$5,000	L + 6.0% (1.0% Floor)☐	7.2%
Dunn Paper	Paper & Forest Products	2nd Lien	UMM	\$3,000	L + 8.75% (1.0% Floor)	10.1%
American Teleconferencing	Telecommunications	1st Lien	UMM	\$6,911	L + 6.5% (1.0% Floor)☐	8.2%
Redbox	Gaming & Leisure	1st Lien	UMM	\$10,000	L + 7.5% (1.0% Floor)☐	9.3%
<b>Total</b>				<b>\$54,815</b>		<b>9.8%</b>

Portfolio Originations - Since Quarter End						
Name	Industry	Type	Market	Par Value	Coupon	
Lighting Retrofit International	Environmental Services	1st Lien	LMM	\$8,000	L + 9.75% (0.5% floor)	10.9%
<b>Total</b>				<b>\$8,000</b>		

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

# Portfolio Statistics

Continuing to demonstrate quarter over quarter credit portfolio growth

	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/2016
<b>Portfolio Statistics</b>				
Fair Value of Debt Investments	\$60,929	\$92,832	\$83,730	\$137,586
Average Debt Investment Hold Size	\$5,077	\$5,157	\$4,925	\$5,982
Fair Value of Debt Investments as a % of Cost	100%	99%	99%	100%
% of Debt Portfolio on Non-Accrual (at Fair Value) <sup>1</sup>	0.0%	0.0%	0.0%	1.8%
Weighted Average Investment Rating <sup>2</sup>	2.0	2.0	1.9	1.9
Weighted Average Yield on Debt Investments	10.31%	10.67%	10.08%	10.00%
Total Fair Value of Portfolio Investments	\$134,935	\$178,436	\$175,915	\$238,319
Weighted Average Yield on all Portfolio Investments	10.82%	9.46%	9.35%	9.13%
Investment Mix (Debt vs. Equity) <sup>3</sup>	57% / 43%	65% / 35%	62% / 38%	73% / 27%
Investment Mix (Yielding vs. Non-Yielding)	89% / 11%	90% / 10%	90% / 10%	94% / 6%

<sup>1</sup> CSWC's \$2.5 MM sub debt investment (legacy 2012 funding) in Titan Liner is currently in the process of being restructured, with CSWC likely taking a controlling position in the company.

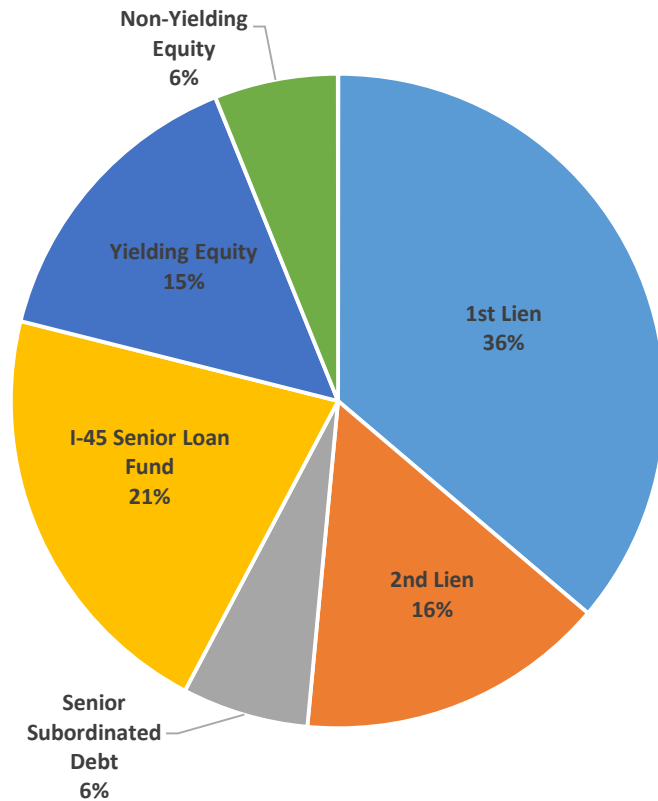
<sup>2</sup> CSWC utilizes an internal 1 - 4 investment rating system in which 1 represents material outperformance and 4 represents material underperformance. All new investments are initially set to 2.

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

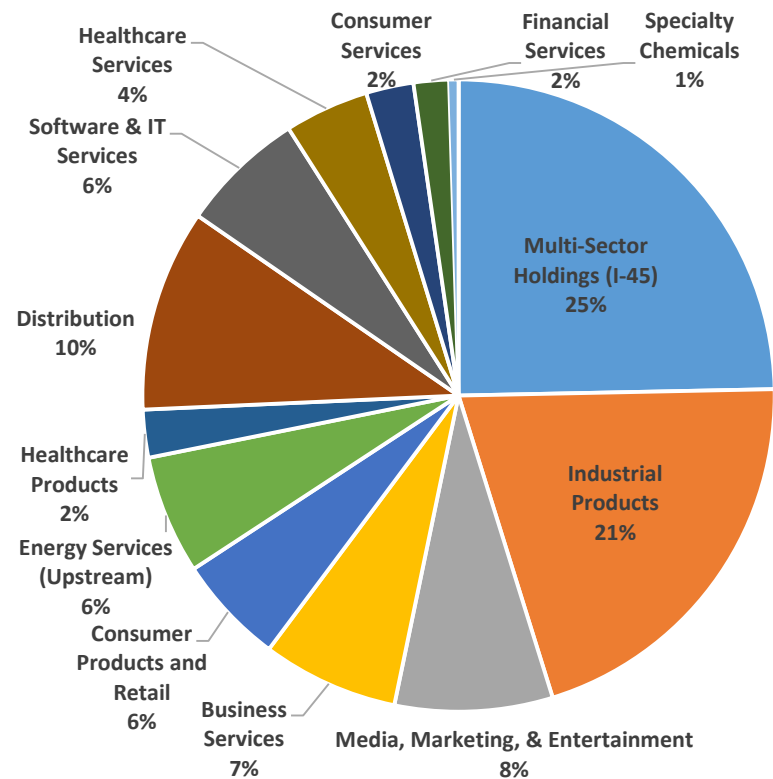
# Portfolio Mix as of 9/30/2016 at Fair Value

Current Portfolio of \$238 MM continues to be granular, diverse, and focused on income generating securities

Current Investment Portfolio (By Type)



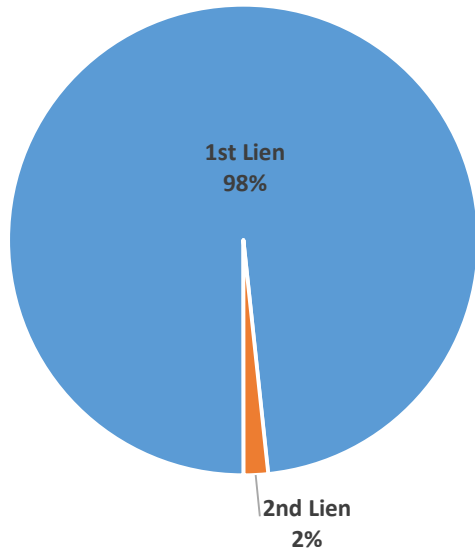
Current Investment Portfolio (By Industry)



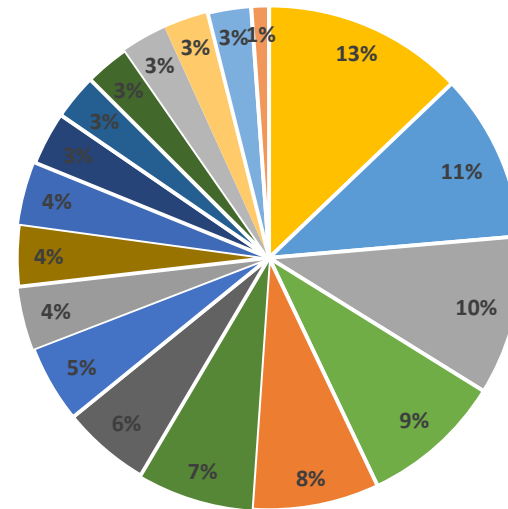
# I-45 Senior Loan Fund Portfolio

CSWC invested \$8 MM additional equity to fund I-45 portfolio growth to \$173 MM

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



## I-45 Portfolio Statistics

	<u>Q3 2016</u>	<u>Q4 2016</u>	<u>Q1 2017</u>	<u>Q2 2017</u>
Total Debt Investments at Fair Value	\$82,036	\$99,214	\$134,470	\$172,519
Number of Issuers	19	24	31	36
Avg. Investment Size as a % of Portfolio	5.26%	4.17%	3.23%	2.78%
Wtd. Avg. I-45 Leverage on Investments	3.3x	3.3x	3.7x	3.6x
Wtd. Avg. Yield to Maturity	7.59%	7.85%	8.36%	8.36%
Wtd. Avg. Duration (Yrs)	4.5	4.2	4.2	4.4

# Balance Sheet Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/2016
<b>Assets</b>				
Portfolio Investments	\$134,935	\$178,436	\$175,915	\$238,319
Cash & Cash Equivalents	\$143,680	\$95,969	\$96,957	\$57,840
Deferred Tax Asset	\$1,544	\$2,342	\$1,874	\$1,940
Other Assets	\$6,421	\$7,746	\$6,110	\$9,176
<b>Total Assets</b>	<b>\$286,580</b>	<b>\$284,493</b>	<b>\$280,856</b>	<b>\$307,275</b>
<b>Liabilities</b>				
Payable for Unsettled Transaction	\$4,850	\$3,940	\$0	\$19,361
Income Tax Payable	\$2,948	\$0	\$601	\$733
Other Liabilities	\$7,997	\$7,918	\$6,971	\$8,252
<b>Total Liabilities</b>	<b>\$15,795</b>	<b>\$11,858</b>	<b>\$7,572</b>	<b>\$28,346</b>
<b>Shareholders Equity</b>				
<b>Net Asset Value</b>	<b>\$270,785</b>	<b>\$272,635</b>	<b>\$273,284</b>	<b>\$278,929</b>
<b>NAV per Share</b>	<b>\$17.22</b>	<b>\$17.34</b>	<b>\$17.39</b>	<b>\$17.74</b>
Debt to Equity	0.0x	0.0x	0.0x	0.0x
Shares Outstanding at Period End	15,725	15,726	15,718	15,727

# Income Statement Highlights

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 12/31/15	Quarter Ended 3/31/16	Quarter Ended 6/30/16	Quarter Ended 9/30/16
<b>Investment Income</b>				
Interest Income	\$1,415	\$2,110	\$2,292	\$2,630
Dividend Income	\$1,612	\$1,578	\$1,769	\$1,995
Fees and Other Income	\$280	\$123	\$96	\$101
<b>Total Investment Income</b>	<b>\$3,307</b>	<b>\$3,811</b>	<b>\$4,157</b>	<b>\$4,726</b>
<b>Expenses</b>				
Cash Compensation	\$1,675	\$1,403	\$1,484	\$1,404
Share Based Compensation	\$195	\$257	\$239	\$255
General & Administrative	\$1,354	\$1,192	\$1,344	\$1,118
Spin-off Related Expenses	\$710	\$251	\$172	\$172
<b>Total Expenses</b>	<b>\$3,934</b>	<b>\$3,103</b>	<b>\$3,239</b>	<b>\$2,949</b>
<b>Pre-Tax Net Investment Income / (Loss)</b>	<b>(\$627)</b>	<b>\$708</b>	<b>\$918</b>	<b>\$1,777</b>
<b>Taxes and Gain / (Loss)</b>				
Income Tax Benefit (Expense)	\$607	\$788	(\$547)	(\$412)
Net realized gain (loss) on investments	(\$8,170)	\$12	\$199	\$3,527
Net increase (decrease) in unrealized appreciation of investments	\$7,060	\$1,001	\$2,127	\$2,026
<b>Net increase (decrease) in net assets resulting from operations</b>	<b>(\$1,130)</b>	<b>\$2,509</b>	<b>\$2,697</b>	<b>\$6,918</b>
Weighted Average Shares Outstanding	15,751	15,795	15,791	15,806
<b>Pre-Tax Net Investment Income Per Weighted Average Share</b>	<b>(\$0.04)</b>	<b>\$0.04</b>	<b>\$0.06</b>	<b>\$0.11</b>
<b>Dividends Per Share</b>	<b>\$0.00</b>	<b>\$0.04</b>	<b>\$0.06</b>	<b>\$0.11</b>

# Investment Income Detail

*Constructing a portfolio of investments with recurring cash yield*

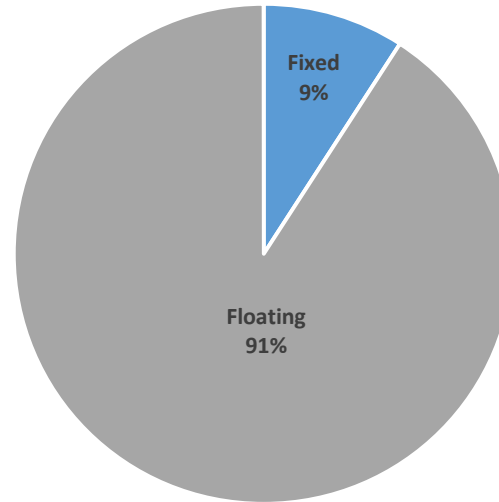
<i>(In Thousands)</i>	Quarter Ended 12/31/2015	Quarter Ended 3/31/2016	Quarter Ended 6/30/2016	Quarter Ended 9/30/16
<b>Investment Income Breakdown</b>				
Cash Interest	\$1,392	\$2,063	\$2,216	\$2,535
Cash Dividends	\$1,612	\$1,578	\$1,769	\$1,995
Management Fees	\$275	\$115	\$95	\$95
Amortization of purchase discounts and fees	\$23	\$47	\$76	\$100
Other Income (non-recurring)	\$5	\$8	\$1	\$1
<b>Total Investment Income</b>	<b>\$3,307</b>	<b>\$3,811</b>	<b>\$4,157</b>	<b>\$4,726</b>
<b>Key Metrics</b>				
Cash Income as a % of Investment Income	99.3%	98.8%	98.2%	97.9%
% of Total Investment Income that is Recurring	99.8%	99.8%	100.0%	100.0%



# Interest Rate Sensitivity

*Debt Portfolio Well-Positioned for Changes to Base Interest Rates*

Yielding Debt Portfolio Composition



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
(50bps)	\$275,074	\$0.02
50 bps	\$573,270	\$0.04
100bps	\$1,505,025	\$0.10
150bps	\$2,456,143	\$0.16
200bps	\$3,407,261	\$0.22

Note: Illustrative change in NII is based on a projection of our existing debt investments as of 9/30/16, 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.

# Corporate Information

## Board of Directors

### Inside Directors

Joseph B. Armes  
Bowen S. Diehl

### Independent Directors

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

## Corporate Offices & Website

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

## Senior Management

Bowen S. Diehl  
*President & Chief Executive Officer*

Michael S. Sarnier  
*Chief Financial Officer, Secretary & Treasurer*

## Investor Relations

Michael S. Sarnier  
Capital Southwest  
214-884-3829  
[msarnier@capitalsouthwest.com](mailto:msarnier@capitalsouthwest.com)

## Securities Listing

NASDAQ: CSWC

## Fiscal Year End

March 31

## Independent Auditor

Grant Thornton  
Dallas, TX

## Corporate Counsel

Thompson & Knight / Jones Day  
Dallas, TX

## Transfer Agent

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