



Capital Southwest Corporation

Q1 2018 Earnings Presentation

August 8, 2017

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 preceded by, followed by, or include the words "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 under CSWC ticker
- 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
- 16 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$331 MM as of June 30, 2017
- Manage I-45 Senior Loan Fund (“SLF”) in partnership with Main Street Capital (Nasdaq: MAIN)

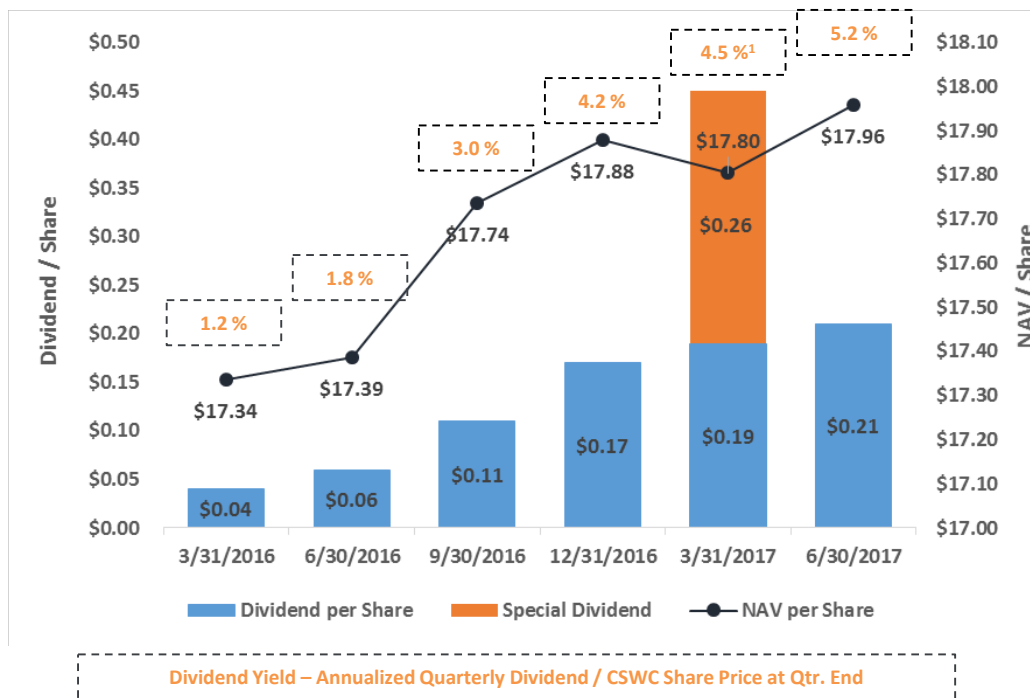
Q1 2018 Highlights

Financial Highlights

- Q1 2018 Pre-Tax NII of \$3.6 MM or \$0.22 per share
- Paid Quarterly Dividend of \$0.21 per share
- Increased Investment Portfolio to \$307 MM from \$287 MM at fair value
 - ✓ \$38 MM deployed in four new originations and one add-on
 - ✓ \$19 MM proceeds received from four portfolio exits
- \$75 MM available on Credit Facility and \$12.4 MM in cash available to fund investment activity as of quarter end
- Increased I-45 SLF investment portfolio to \$210 MM from \$200 MM
 - ✓ I-45 distributed \$2.3 MM dividend to CSWC
 - ✓ \$55 MM deployed in 12 new originations and one add-on
 - ✓ \$43 MM proceeds received in ten portfolio exits

Evolution of CSWC Generating Consistent Dividend and NAV Growth

- Over the past four quarters, CSWC has generated \$0.76 per share in Pre-Tax Net Investment Income (NII) and paid out \$0.68 per share in regular dividends
 - ✓ LTM dividend coverage of 112% of Pre-Tax NII
- 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 5.2% at 6/30/17 from 1.2% at 3/31/16
- NAV has increased to \$17.96 per share at 6/30/17 from \$17.34 per share at 3/31/16



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

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 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

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 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

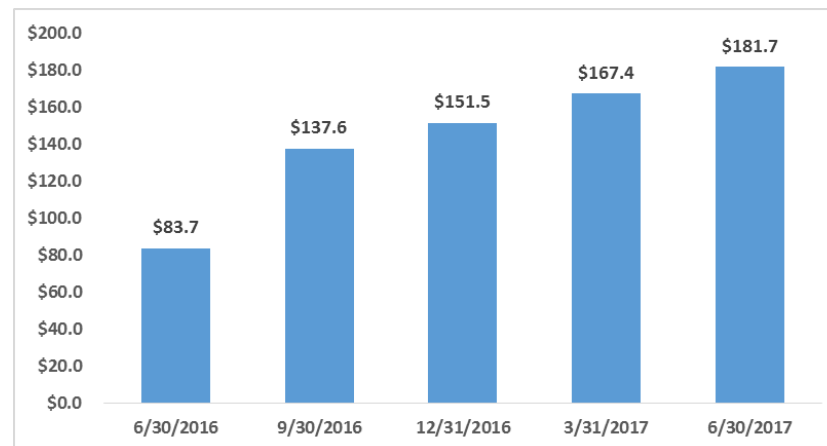
Balance Sheet Credit Portfolio Growth

Credit portfolio has grown to \$182 MM at 6/30/17 from \$84 MM at 6/30/16

(In Millions)	9/30/2016	12/31/2016	3/31/2017	6/30/2017
Debt Investments at Fair Value				
Beginning Total Debt Portfolio (FV)	\$83.7	\$137.6	\$151.4	\$167.4
New Originations ⁽¹⁾	\$53.8	\$26.6	\$37.1	\$36.8
Repayments & Exits ⁽²⁾	(\$0.9)	(\$13.2)	(\$23.0)	(\$24.1)
Appreciation / (Depreciation)	\$1.0	\$0.4	\$1.9	\$1.6
Change in Debt Investments (FV)	\$53.9	\$13.8	\$16.0	\$14.3
Ending Total Debt Portfolio (FV)	\$137.6	\$151.4	\$167.4	\$181.7

1. Includes purchases of new investments, as well as discount accretion on existing investments.
2. Includes conversion of \$2.7 million debt security in legacy Titan Liner to equity in 12/31/16 quarter

Debt Portfolio (Fair Value)



Q1 2018 Portfolio Originations

Strong Lower Middle Market origination activity with \$38 MM in new investments in Q1 2018 at a weighted average YTM of 10.3%

Q1 2018 Portfolio Originations						
Name	Industry	Type	Market	Total Commitment	Debt Coupon	Debt Yield to Maturity
Wastewater Speciality	Industrial Services	1st Lien	LMM	\$11,000	L + 8.75% (1.0% floor)	10.6%
R. J. O'Brien	Commodities	1st Lien	UMM	\$7,500	L + 8.00% (1.0% floor)	9.6%
Tax Advisors Group	Consumer Services	Sub-debt and Equity	LMM	\$5,141	10.00% (2.0% PIK)	12.5%
Lighting Retrofit International (Add-on)	Environmental Services	1st Lien and Equity	LMM	\$5,278	L + 9.25% (1.0% floor)	11.0%
AAC Holdings	Healthcare Services	1st Lien	UMM	\$9,500	L + 6.75% (1.0% floor)	8.8%
Total				\$38,419		10.3%

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

Q1 2018 Portfolio Prepayments

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

Q1 2018 Portfolio Exits						
Name	Industry	Type	Market	Proceeds	Realized Gain	IRR
Infogroup Inc.	Software & IT Services	1st Lien	UMM	\$4,895	\$72	11.0%
LTI Holdings, Inc.	Industrial Products	2nd Lien	UMM	\$7,000	\$144	12.9%
TaxAct, Inc.	Financial Services	1st Lien	UMM	\$2,450	\$43	9.9%
Imagine! Print Solutions, Inc.	Media, Marketing, & Entertainment	1st Lien	UMM	\$4,853	\$52	9.0%
Total / Wtd. Avg.				\$19,198	\$311	11.1%

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

Portfolio Statistics by Investment Strategy

Portfolio statistics illustrate CSWC's prudent investment underwriting

Investment Portfolio - Statistics at 6/30/17		
	Lower Middle Market ⁽¹⁾	Upper Middle Market
Number of Portfolio Companies	12	15
Total Cost	\$112,331	\$91,812
Total Fair Value	\$146,005	\$93,041
Average Hold Size (at Cost)	\$9,361	\$6,121
% First Lien Investments (at Cost)	62.9%	56.6%
% Second Lien Investments (at Cost)	0.0%	43.4%
% Subordinated Debt Investments (at Cost)	15.1%	0.0%
% Equity (at Cost)	22.1%	0.0%
Wtd. Avg. EBITDA of Issuer (\$MM's)	\$8.5	\$94.2
Wtd. Avg. Leverage through CSWC Security ^{(2) (3)}	3.3x	3.7x
Wtd. Avg. Yield ⁽²⁾	11.4%	9.6%

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

(1) At 6/30/17, CSWC had equity ownership in approximately 75% of its LMM portfolio companies

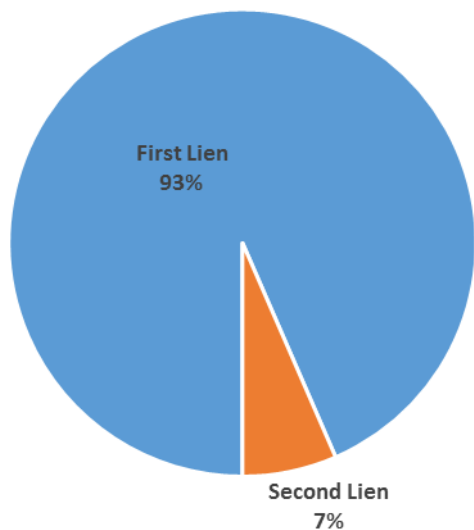
(2) Includes only CSWC debt investments

(3) Calculated as portfolio company debt through CSWC security divided by Adjusted EBITDA

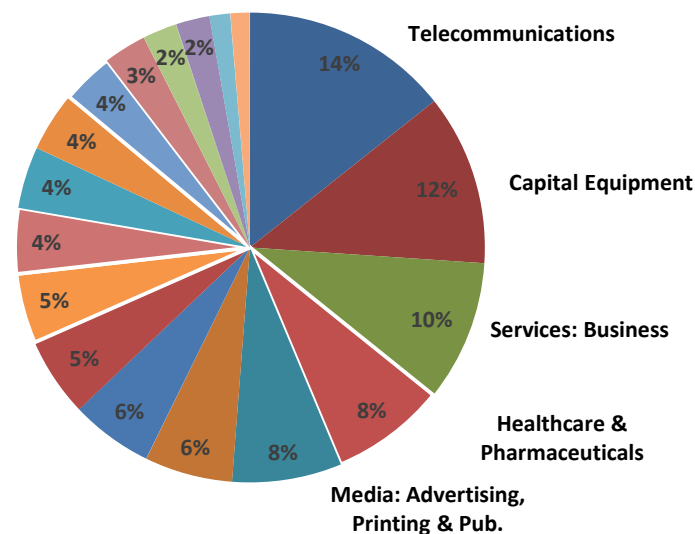
I-45 Portfolio Overview

I-45 portfolio grew to \$210 MM while average investment size shrunk to 2.2%

Current I-45 Portfolio (By Type)



Current I-45 Portfolio (By Industry)



I-45 Portfolio Statistics				
	<u>9/30/2016</u>	<u>12/31/2016</u>	<u>3/31/2017</u>	<u>6/30/2017</u>
Total Debt Investments at Fair Value	\$172,519	\$186,643	\$200,243	\$209,863
Number of Issuers	36	41	43	46
Wtd. Avg. Issuer EBITDA	\$100,144	\$88,970	\$81,417	\$80,909
Avg. Investment Size as a % of Portfolio	2.8%	2.4%	2.3%	2.2%
Wtd. Avg. Net Leverage on Investments ⁽¹⁾	3.3x	3.2x	3.0x	3.5x
Wtd. Avg. Yield	8.1%	8.0%	7.9%	7.9%
Wtd. Avg. Duration (Yrs)	4.4	4.4	4.3	4.9

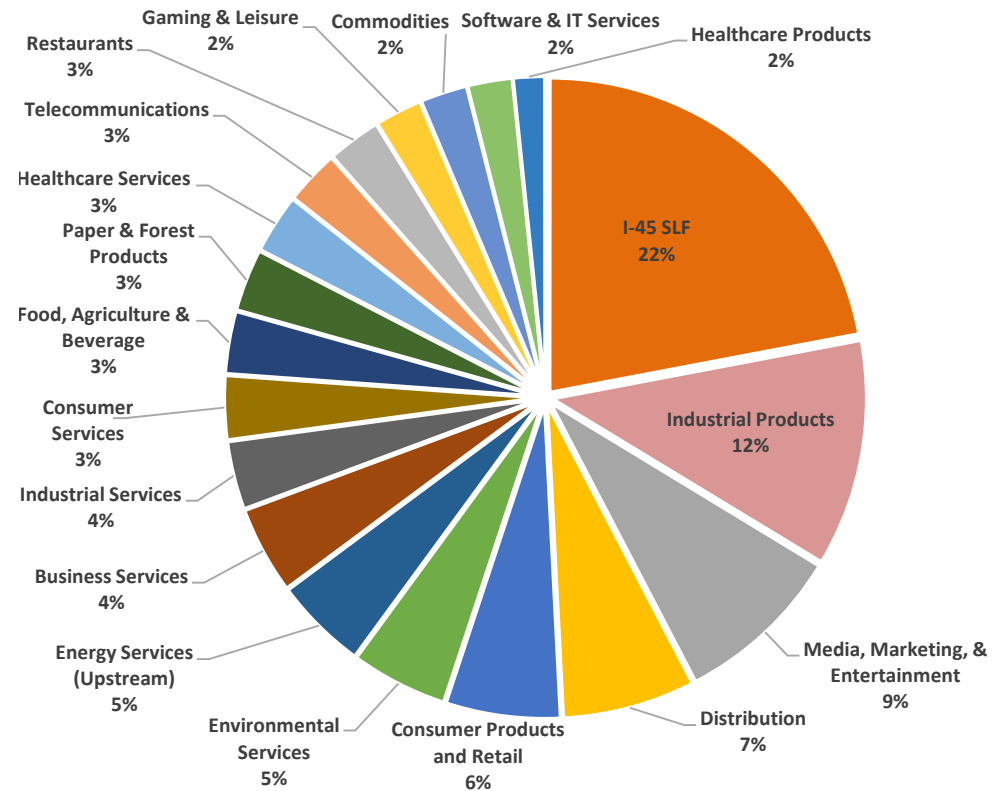
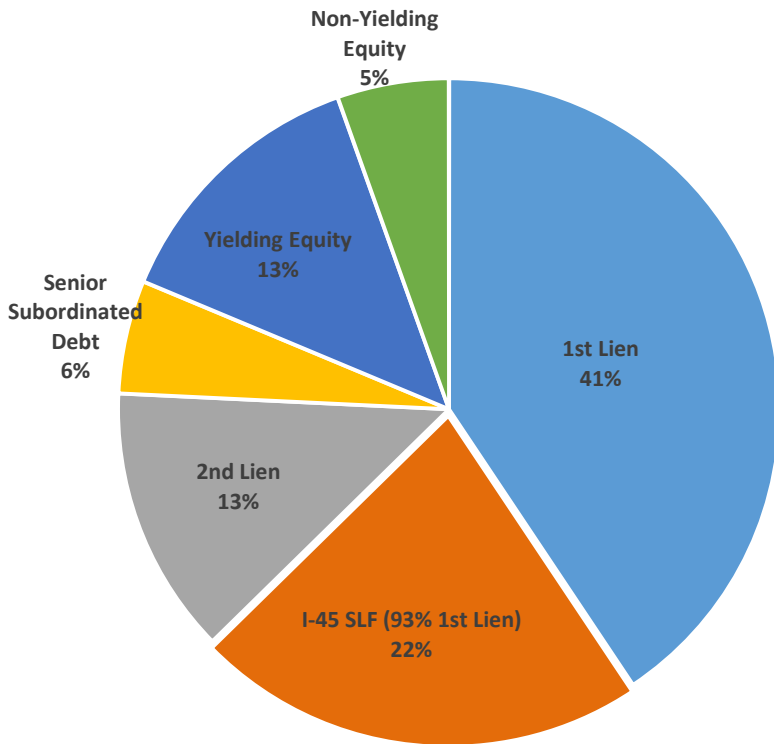
(1) Through I-45 Security

Portfolio Mix as of 6/30/17 at Fair Value

Current Portfolio of \$307 MM continues to be granular, diverse, and focused on income generating securities

Current Investment Portfolio (By Type)

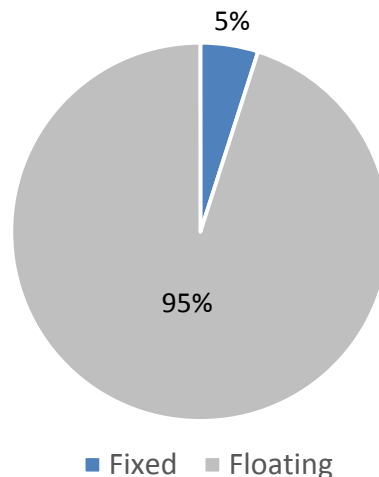
Current Investment Portfolio (By Industry)



Interest Rate Sensitivity

Debt Portfolio Exposure at 6/30/17 Well-Positioned for Changes to Base Interest Rates

Fixed vs. Floating Portfolio Composition (1)



Change in Base Interest Rates	Illustrative NII Change (\$'s)	Illustrative NII Change (Per Share)
(50bps)	(\$324,142)	(\$0.02)
50 bps	\$1,006,719	\$0.06
100bps	\$2,013,438	\$0.13
150bps	\$3,020,157	\$0.19
200bps	\$4,026,876	\$0.25

(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 6/30/17, 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.

Income Statement

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/16	Quarter Ended 12/31/16	Quarter Ended 3/31/17	Quarter Ended 6/30/17
Investment Income				
Interest Income	\$2,630	\$3,611	\$4,113	\$4,520
Dividend Income	\$1,995	\$3,078	\$3,002	\$3,004
Fees and Other Income	\$101	\$176	\$611	\$200
Total Investment Income	\$4,726	\$6,865	\$7,726	\$7,724
Expenses				
Cash Compensation	\$1,404	\$1,476	\$1,704	\$1,638
Share Based Compensation	\$255	\$321	\$382	\$368
General & Administrative	\$1,015	\$1,144	\$1,360	\$1,228
Spin-off Related Expenses	\$172	\$172	\$172	\$172
Total Expenses (excluding Interest)	\$2,846	\$3,113	\$3,618	\$3,406
Interest Expense	\$103	\$343	\$543	\$738
Pre-Tax Net Investment Income	\$1,777	\$3,409	\$3,565	\$3,580
Taxes and Gain / (Loss)				
Income Tax Benefit (Expense)	(\$412)	(\$536)	(\$284)	(\$144)
Net realized gain (loss) on investments	\$3,527	\$72	\$4,098	\$624
Net increase (decrease) in unrealized appreciation of investments	\$2,026	\$4,940	(\$1,402)	\$1,384
Net increase (decrease) in net assets resulting from operations	\$6,918	\$7,885	\$5,977	\$5,444
Weighted Average Diluted Shares Outstanding	15,806	15,932	16,044	16,072
Pre-Tax Net Investment Income Per Dil. Weighted Average Share	\$0.11	\$0.21	\$0.22	\$0.22

Investment Income Detail

Constructing a portfolio of investments with recurring cash yield

- Recurring cash interest income continues to grow quarter over quarter
- Earned less non-recurring prepayment fees in Q1 2018 versus previous quarter
- PIK income remains a minor portion of NII

<i>(In Thousands)</i>	Quarter Ended 9/30/16	Quarter Ended 12/31/16	Quarter Ended 3/31/17	Quarter Ended 6/30/17
Investment Income Breakdown				
Cash Interest	\$2,535	\$3,490	\$3,913	\$4,264
Cash Dividends	\$1,995	\$3,078	\$3,002	\$3,004
PIK Income	\$0	\$0	\$63	\$73
Amortization of purchase discounts and fees	\$100	\$120	\$136	\$183
Management/Admin Fees	\$95	\$105	\$115	\$128
Prepayment Fees & Other Income	\$1	\$73	\$497	\$72
Total Investment Income	\$4,726	\$6,865	\$7,726	\$7,724
Key Metrics				
Cash Income as a % of Investment Income	98%	98%	97%	97%
% of Total Investment Income that is Recurring ⁽¹⁾	97%	90%	90%	93%

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

Balance Sheet

<i>(In Thousands, except per share amounts)</i>	Quarter Ended 9/30/2016	Quarter Ended 12/31/2016	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017
Assets				
Portfolio Investments	\$238,319	\$267,131	\$286,880	\$306,582
Cash & Cash Equivalents	\$57,840	\$32,671	\$22,386	\$12,359
Deferred Tax Asset	\$1,940	\$1,940	\$2,017	\$1,858
Other Assets	\$9,176	\$10,592	\$14,469	\$10,391
Total Assets	\$307,275	\$312,334	\$325,752	\$331,190
Liabilities				
Credit Facility	\$0	\$15,000	\$25,000	\$25,000
Payable for Unsettled Transaction	\$19,361	\$0	\$0	\$9,263
Other Liabilities	\$8,985	\$11,890	\$15,680	\$9,500
Total Liabilities	\$28,346	\$26,890	\$40,680	\$43,763
Shareholders Equity				
Net Asset Value	\$278,929	\$285,444	\$285,072	\$287,427
NAV per Share	\$17.74	\$17.88	\$17.80	\$17.96
Debt to Equity	0.0x	0.1x	0.1x	0.1x
Shares Outstanding at Period End	15,727	15,965	16,011	16,006

Portfolio Statistics

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

	Quarter Ended 9/30/2016	Quarter Ended 12/31/2016	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017
Portfolio Statistics				
Fair Value of Debt Investments	\$137,586	\$151,465	\$167,447	\$181,725
Average Debt Investment Hold Size	\$5,982	\$5,826	\$5,980	\$6,731
Fair Value of Debt Investments as a % of Par	98%	98%	99%	99%
% of Debt Portfolio on Non-Accrual (at Fair Value)	1.8%	0.0%	0.0%	0.0%
Weighted Average Investment Rating ⁽¹⁾	1.9	1.9	1.9	2.0
Weighted Average Yield on Debt Investments	10.00%	10.32%	10.28%	10.51%
Total Fair Value of Portfolio Investments	\$238,319	\$267,131	\$286,880	\$306,582
Weighted Average Yield on all Portfolio Investments ⁽²⁾	9.23%	10.72%	10.49%	10.43%
Investment Mix (Debt vs. Equity) ^{(3) (4)}	73% / 27%	73% / 27%	75% / 25%	76% / 24%
Investment Mix (Yielding vs. Non-Yielding) ⁽⁴⁾	94% / 6%	94% / 6%	95% / 5%	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

Financial Highlights

	Quarter Ended 9/30/2016	Quarter Ended 12/31/2016	Quarter Ended 3/31/2017	Quarter Ended 6/30/2017
Financial Highlights				
Pre-Tax Net Investment Income Per Wtd Avg Diluted Share	\$0.11	\$0.21	\$0.22	\$0.22
Pre-Tax Net Investment Income Return on Equity (ROE)	2.54%	4.79%	4.99%	4.96%
Realized Earnings Per Wtd Avg Diluted Share	\$0.31	\$0.18	\$0.46	\$0.25
Realized Earnings ROE	6.98%	4.14%	10.33%	5.63%
Earnings Per Wtd Avg Diluted Share	\$0.44	\$0.49	\$0.37	\$0.34
Earnings Return on Equity (ROE)	9.87%	11.07%	8.37%	7.57%
Quarterly Dividends Per Share	\$0.11	\$0.17	\$0.19	\$0.21
Special Dividends per Share	\$0.00	\$0.00	\$0.26	\$0.00
NAV Per Share	\$17.74	\$17.88	\$17.80	\$17.96

Corporate Information

Board of Directors

Inside Directors

Bowen S. Diehl

Independent Directors

David R. Brooks

Jack D. Furst

John H. Wilson

William R. Thomas

T. Duane Morgan

Corporate Offices & Website

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Senior Management

Bowen S. Diehl

President & Chief Executive Officer

Michael S. Sarner

Chief Financial Officer, Secretary & Treasurer

Investor Relations

Michael S. Sarner

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Securities Listing

NASDAQ: CSWC

Fiscal Year End

March 31

Independent Auditor

RSM

Chicago, IL

Corporate Counsel

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Transfer Agent

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