



Capital Southwest Corporation (CSWC)

Updated February 3rd, 2026 by Nikolaos Sismanis

Key Metrics

Current Price:	\$23.11	5 Year Annual Expected Total Return:	9.7%	Market Cap:	\$1.33 B
Fair Value Price:	\$23.50	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	03/13/2026
% Fair Value:	98%	5 Year Valuation Multiple Estimate:	0.3%	Dividend Payment Date:	03/31/2026
Dividend Yield:	10.0%	5 Year Price Target	\$24.70	Years Of Dividend Growth:	8 ¹
Dividend Risk Score:	F	Sector:	Financials	Rating:	Hold

Overview & Current Events

Capital Southwest Corporation is an internally managed investment company that has elected to be regulated as a BDC (Business Development Company). The company specializes in providing customized debt and equity financing to lower middle market (LMM) companies and debt capital to upper-middle market (UMM) companies located primarily in the United States. Capital Southwest generates around \$82 million in annual revenues and is based in Dallas, Texas.

On July 23rd, 2025, Capital Southwest declared a base monthly dividend of \$0.1934 (switching from quarterly payments). The base annualized dividend remains at \$2.32, which we have utilized in our estimates. Supplemental dividends are not included in our fiscal 2026 entry in the table below.

On February 2nd, 2026, Capital Southwest reported its fiscal Q3-2026 results for the period ending December 31st, 2025. Note that CSWC's fiscal year ends on March 31st, which applies to the figures shown in our tables. Capital Southwest's total investment income rose to \$61.4 million from \$56.9 million, driven by portfolio growth and stable cash yields, partially offset by lower fee income. PIK interest remained well controlled, supporting earnings durability. The weighted average debt yield edged down to 11.3% from 11.5% due to portfolio mix and repayments.

Pre-tax net investment income was \$34.6 million, or \$0.60 per share, versus \$34.0 million, or \$0.61, reflecting higher average shares outstanding. Undistributed taxable income declined to \$1.02 per share after supplemental dividends, while regular dividends remained fully covered and cumulative dividend coverage continues to exceed 100%.

CSWC's credit portfolio expanded to 132 lower- and upper-middle-market companies, up from 126 in the prior quarter. The approximately \$2.0 billion investment portfolio remains heavily weighted toward 1st lien secured debt, which represents the vast majority of credit holdings. Portfolio diversification remains strong across more than 20 industries, with Healthcare Services, Media & Marketing, and Food/Agriculture & Beverage continuing to rank among the largest sector exposures. For FY2026, we expect NII/share of \$2.35.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
NII	(\$0.76)	\$0.61	\$1.02	\$1.48	\$1.68	\$1.79	\$1.90	\$2.30	\$2.72	\$2.50	\$2.35	\$2.47
DPS	\$0.14	\$0.79	\$0.99	\$2.27	\$2.75	\$2.05	\$2.52	\$2.28	\$2.47	\$2.54	\$2.32	\$2.44
Shares²	15.6	15.9	16.1	16.7	18.0	19.0	22.8	30.0	40.7	51.2	54.1	60.0

On September 30th, 2015, Capital Southwest completed the spin-off of CSW Industrials (CSWI). This explains the stock price's sudden "nosedive" around this period and the higher financials before the spin-off, as depicted in the table. The company's prolonged history as a BDC company and experienced management team have allowed it to sustain a double-digit investment yield most of the time. The company has refinanced its own loans at lower rates over time, resulting in higher net investment income. Additionally, with only 30 employees, operating expenses as a percentage of total assets have also been declining. They were 4.9% in FY2016, but are currently less than half this amount at 1.7%. In terms of the dividend, the company has been growing its base DPS annually since the spin-off in 2015. The higher

¹ Refers to the base dividend rate which excludes supplemental payouts.

² Share count is in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Capital Southwest Corporation (CSWC)

Updated February 3rd, 2026 by Nikolaos Sismanis

dividends seen over the past few years are due to special dividends that the company can afford from additional gains (e.g., equity sales), which are not recorded as investment income. Hence, both the supplemental and special dividends are technically covered. We expect both NII/share and the base DPS to grow by around 1% in the medium-term. Higher interest rates currently benefit the company. Total dividends are likely to be higher amid one-off additional gains from equities, though since they are impossible to predict, we are not speculating higher figures.

Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/E	---	26.6	18.9	14.4	12.5	12.8	12.1	8.3	7.6	9.6	9.8	10.0
Avg. Yld.	1.0%	4.9%	5.1%	10.7%	13.1%	9.0%	10.9%	11.9%	12.0%	10.6%	10.0%	9.9%

Capital Southwest is now trading at 9.8x our expected net investment income year. We believe that the stock is slightly undervalued here. We believe that a 10x multiple accounts for its operating performance and resilient investments, especially in today's market environment. At the current base DPS, the stock yields 10.0%, excluding any supplemental or special dividends. The actual yield should be higher when accounting for these additional payouts.

Safety, Quality, Competitive Advantage, & Recession Resiliency

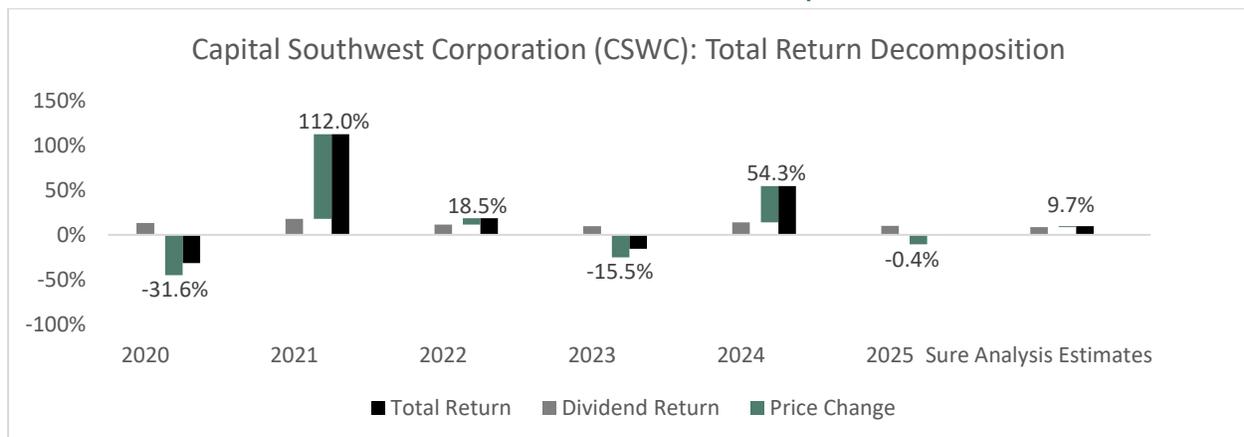
Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	---	130%	97%	153%	164%	115%	133%	99%	91%	102%	99%	99%

Capital Southwest's dividend should be considered safer than its 99% payout ratio implies, considering the supplemental payouts, the special payouts, and the latest quarterly dividend increase. The payout ratio does not include the realized gains that are in the form of non-investment income, hence the abnormally high figures. Overall, the BDC's diversified portfolio has proven very resilient, even during COVID-19, when interest income remained robust. Considering 2015's spin-off transformed the company, this is the closest we can get to measure the company's recession resiliency, which could prove to be quite strong based on its 2020-2021 results. Being an investment company, Capital Southwest does not have a distinct competitive advantage compared to its peers other than management's experience.

Final Thoughts & Recommendation

Capital Southwest is a well-diversified business development company and one of the oldest ones in the market, having prospered through numerous cycles. Its financials have been growing fast following the 2015 spinoff, and its optimal financing costs have resulted in a prudent portfolio expansion. We forecast annualized returns of 9.7% in the medium-term, excluding any supplementary dividends, powered primarily by the stock's hefty dividend yield, our growth rates, and the possibility of a valuation tailwind. However, we rate the stock as a hold due to the dividend risk score.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



Capital Southwest Corporation (CSWC)

Updated February 3rd, 2026 by Nikolaos Sismanis

Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	65.8	14.4	38.4	53.2	48.9	-0.2	71.6	78.9	109.1	157.7
SG&A Exp.	5.8	11.4	4.4	4.4	4.8	5.6	5.2	2.5	9	0
D&A Exp.	0.1	0.1	0.5	0.9	1.4	2.4	2.0	2.2	---	6
Net Profit	53.4	-5.4	23.5	39.3	33.1	-22.4	50.9	42.8	83.4	69.9
Net Margin	81.2%	N/A	61.1%	73.9%	67.6%	N/A	71.1%	54.2%	76.4%	44.3%
Free Cash Flow	194.3	-111.5	-89.6	-63.9	-94.7	-47.9	-68.3	-184.7	---	107
Income Tax	0.3	-1.3	2.1	0.1	0.9	6.2	4.7	4.0	1.2	8.8

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	776.9	284.5	325.8	417.5	551.8	585.0	735.6	974	1,557	1,885
Cash & Equivalents	225.8	96.0	22.4	7.9	9.9	13.7	31.6	11.4	32.3	44.9
Total Liabilities	9.5	11.9	40.7	109.2	225.9	312.7	399.3	553	801	1,001
Long-Term Debt	0.0	0.0	25.0	95.3	216.1	303.3	381.3	529	771	961
Shareholder's Equity	767.4	272.6	285.1	308.3	326.0	272.2	336.3	421	756	884
LTD/E Ratio	0.0	0.0	0.1	0.3	0.7	1.1	1.1	1.27	1.02	1.09

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	6.9%	-1.0%	7.7%	10.6%	6.8%	-3.9%	7.7%	5.0%	5.9%	4.1%
Return on Equity	7.0%	-1.0%	8.4%	13.2%	10.4%	-7.5%	16.7%	11.3%	12.4%	8.5%
ROIC	7.0%	-1.0%	8.1%	11.0%	7.0%	-4.0%	7.9%	5.1%	6.1%	4.1%
Shares Out.	15.5	15.7	15.9	16.1	16.7	18.0	19.1	22.84	40.73	51.2
Revenue/Share	4.24	0.92	2.42	3.30	2.92	-0.01	3.76	3.46	2.68	3.08
FCF/Share	12.51	-7.09	-5.64	-3.96	-5.66	-2.66	-3.6	-8.09	---	2.08

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.