



Capital Southwest Corporation (CSWC)

Updated May 25th, 2026 by Nikolaos Sismanis

Key Metrics

Current Price:	\$22.77	5 Year Annual Expected Total Return:	10.0%	Market Cap:	\$1.41 B
Fair Value Price:	\$23.50	5 Year Growth Estimate:	1.0%	Ex-Dividend Date:	06/15/2026
% Fair Value:	97%	5 Year Valuation Multiple Estimate:	0.6%	Dividend Payment Date:	06/30/2026
Dividend Yield:	10.2%	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 recorded \$232 million in total investment income in FY2026 and is based in Dallas, TX. 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 May 13th, 2026, Capital Southwest reported its fiscal Q4-2026 results for the period ending March 31st, 2026. 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 declined to \$57.8 million from \$61.4 million, primarily driven by lower interest income due to fewer arranger fees and a lower weighted average yield on debt investments, reflecting lower base rates. PIK income remained well controlled at \$3.8 million, while cash income represented 93.5% of total investment income, supporting earnings quality. The weighted average debt yield declined to 10.8% from 11.3%

Pre-tax net investment income was \$35.2 million, or \$0.59 per share, versus \$34.6 million, or \$0.60, as higher pre-tax NII was offset by a higher share count. Undistributed taxable income increased to \$1.07 per share after dividends, while the \$0.58 regular quarterly dividend remained covered by pre-tax NII. Total quarterly dividends were \$0.64 per share, including the \$0.06 supplemental dividend.

CSWC's credit portfolio stood at 131 lower- and upper-middle-market companies, down from 132 in the prior quarter. The approximately \$2.1 billion investment portfolio remains heavily weighted toward 1st lien secured debt, which represented 90.1% of total investments and 99% of the credit portfolio. Portfolio diversification remains strong across multiple industries, with Healthcare Services, Consumer Services, Media & Marketing, and Consumer Products ranking among the largest sector exposures. For FY2027, we expect NII/share of \$2.35.

Growth on a Per-Share Basis

Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032
NII	\$0.61	\$1.02	\$1.48	\$1.68	\$1.79	\$1.90	\$2.30	\$2.72	\$2.50	\$2.39	\$2.35	\$2.47
DPS	\$0.79	\$0.99	\$2.27	\$2.75	\$2.05	\$2.52	\$2.28	\$2.47	\$2.54	\$2.56	\$2.32	\$2.44
Shares²	15.9	16.1	16.7	18.0	19.0	22.8	30.0	40.7	51.2	65.8	65.8	80.0

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 36 employees, operating expenses as a percentage of

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

² Share count is in millions.

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total assets have also been declining. They were 4.9% in FY2016, but were just 1.4% at the end of FY2026. In terms of the dividend, the company has been growing its base DPS annually since the spin-off in 2015. The higher 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	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	Now	2032
Avg. P/E	26.6	18.9	14.4	12.5	12.8	12.1	8.3	7.6	9.6	9.1	9.7	10.0
Avg. Yld.	4.9%	5.1%	10.7%	13.1%	9.0%	10.9%	11.9%	12.0%	10.6%	11.8%	10.2%	9.9%

Capital Southwest is now trading at 9.7x 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 10.2%, excluding any supplemental or special dividends. The actual yield should be higher when accounting for these additional payouts.

Safety, Quality, Competitive Advantage, & Recession Resiliency

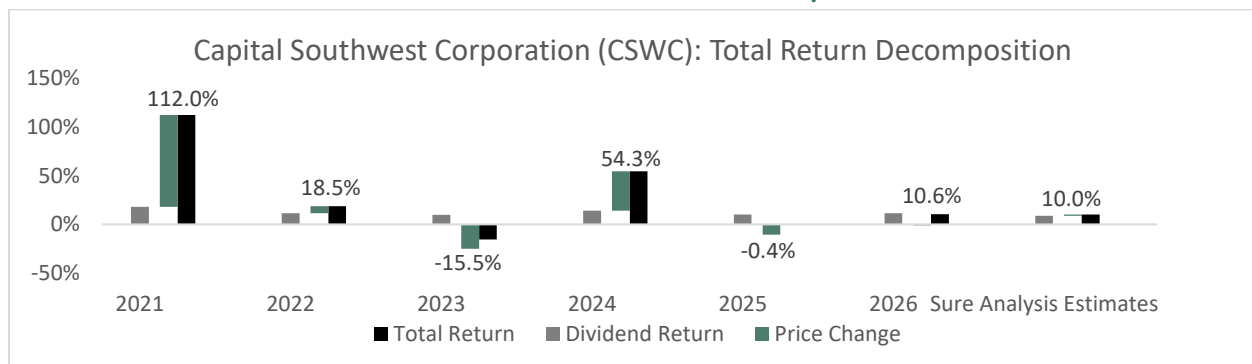
Year	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032
Payout	130%	97%	153%	164%	115%	133%	99%	91%	102%	107%	99%	99%

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 10.0% 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



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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.

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