Zacks Small-Cap Research

June 2, 2015
Ann H. Heffron, CFA, CPA
312-265-9428
aheffron@zacks.com

scr.zacks.com
10 South Riverside Plaza ● Chicago, IL 60606

QCR Holdings, Inc.

(QCRH-NASDAQ)

QCRH: Downgrading to Hold due to Price

OUTLOOK

We are downgrading our recommendation on QCR Holdings, Inc. (QCRH) to Hold from Buy. The stock price has moved to within 1% of our Target Price, and is now consistent with a Hold recommendation rather than a Buy. At the same time, we are removing QCRH from our coverage list.

Current Recommendation	**Hold**
Prior Recommendation	Buy
Date of Last Change	06/01/2015
Current Price (06/01/15)	$21.71
Twelve- Month Target Price	**$22.00**

SUMMARY DATA

52-Week High	**$21.71**
52-Week Low	**$17.01**
One-Year Return (%)	**27.10**
Beta	**0.21**
Average Daily Volume (sh)	**82,861**
Shares Outstanding (mil)	**12**
Market Capitalization ($mil)	**$253**
Short Interest Ratio (days)	**0.15**
Institutional Ownership (%)	**20**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$0.08**
Dividend Yield (%)	**0.37**
5-Yr. Historical Growth Rates	
Net Revenue (%)	**8.4**
Earnings Per Share (%)	**34.1**
Dividend (%)	**0.0**
P/E using TTM EPS	**11.8**
P/E using 2015 Estimate	**15.0**
P/E using 2016 Estimate	**N/A**
Zacks Rank	**3**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Banks-Midwest**
Zacks Rank in Industry	**22 of 35**

ZACKS ESTIMATES

Net Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	18.2 A	18.6 A	18.7 A	18.8 A	74.3 A
2013	19.4 A	22.7 A	23.2 A	24.6 A	89.9 A
2014	21.6 A	22.3 A	22.6 A	23.6 A	90.1 A
2015	24.0 A				96.0 E

Earnings per Share
(EPS is operating earnings before nonrecurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2012	0.48 A	0.44 A	0.44 A	0.49 A	1.85 A
2013	0.49 A	0.59 A	0.51 A	0.50 A	2.08 A
2014	0.40 A	0.45 A	0.50 A	0.37 A	1.72 A
2015	0.52 A				1.45 E

Quarterly EPS may not add to total due to changes in shares outstanding.

© Copyright {2015 Zacks Investment Research. All Rights Reserved.

UPDATE

We are downgrading our recommendation on QCR Holdings, Inc. (QCRH) to Hold from Buy. The stock price has moved to within 1% of our Target Price, and is now consistent with a Hold recommendation rather than a Buy. At the same time, we are removing QCRH from our coverage list.

OVERVIEW

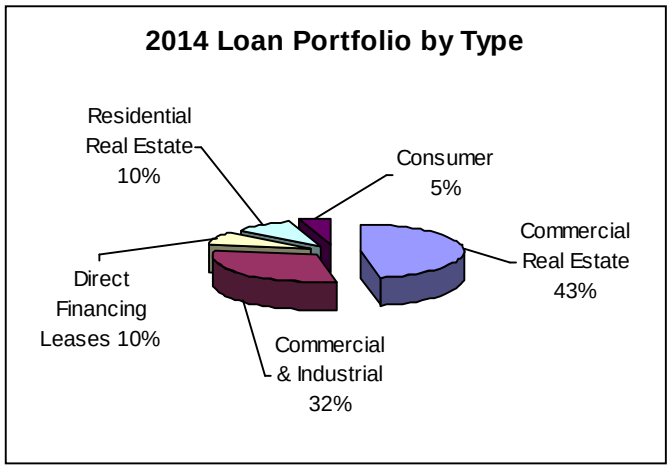
QCR Holdings, Inc. (QCRH or the Company) is a multibank holding company, which was founded in 1993 and is headquartered in Moline, Illinois, with $2.5 billion in total assets at December 31, 2014 and 14 offices. QCRH provides a broad range of business and retail lending products and investment services through four wholly owned, full-service banking subsidiaries that are located in Illinois and Iowa. These subsidiaries include Quad City Bank and Trust Company (QCBT), based in Bettendorf, Iowa; Cedar Rapids Bank and Trust Company (CRBT), based in Cedar Rapids, Iowa; Rockford Bank and Trust Company (RB&T), based in Rockford, Illinois; and Community National Bank (CNB), based in Waterloo, Iowa following the May 2013 acquisition of Parent Community National Bancorporation by QCRH.

By far the largest of these subsidiaries is QCBT, which accounts for $1.32 billion at yearend 2014, or approximately 52%, of QCRH's total assets, and is also the oldest of its subsidiaries, having begun operations in January 1994. Its five offices are located in Bettendorf and Davenport, Iowa and Moline, Illinois. CRBT, begun in June 2001, is the next largest with $8840 million of total assets, or about 33% of consolidated assets, and six offices total, with two offices each in Cedar Rapids, Waterloo, and Cedar Falls. On October 26, 2013, CNB was merged into CRBT and CNB's offices were rebranded Community Bank and Trust. RB&T began operations in September 2004. RB&T has $353 million in total assets, or roughly 14% of QCRH's total assets, and operates through two offices located in Rockford, Illinois. CNB is the final banking subsidiary, having begun operations in 1997.

In addition, the Company has two non-bank subsidiaries that help manage other aspects of its business. These include: (1) a 100% equity interest in m2 Lease Funds, LLC (m2), which is owned by QCBT and was acquired in August 2005. m2, which is based in Brookfield, Wisconsin and operates through one office, is engaged in the business of leasing machinery and equipment to commercial and industrial clients through full-payout direct financing leases. Accounting for $110 million, or approximately 5%, of total consolidated assets, m2 is a niche player and specializes in the key areas of marine equipment, printing, office technology, machinery/machine tools, and telecom and (2) a 100% interest in Quad City Investment Advisors, LLC, an investment management business that was acquired in January 2008 and was formerly known as CMG Investment Advisors, LLC.

QCRH has a smaller ownership interest in Nobel Real Estate Investors, LLC (20%), though this does not contribute meaningfully to assets or net income. The Cedar Rapids Mortgage Company, LLC in which QCRH had a 50% interest, was closed in 2013's second quarter.

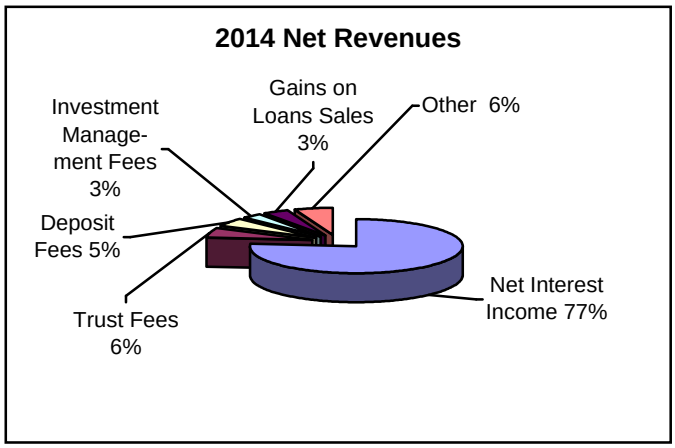
QCRH has disposed of several operating subsidiaries over the past few years as they did not contribute significantly to earnings and no longer fit into the Company's long-term strategic plans. These include: (1) the sale of the merchant credit card processing business and the liquidation of Quad City Bancard, Inc., a subsidiary that issued credit cards to consumers and businesses, in the third quarter of 2008, for which the Company recorded a $3.0 million aftertax gain; (2) the sale of First Wisconsin Bank and Trust Company, QCRH's Milwaukee, Wisconsin banking subsidiary, for which the Company posted a $0.5 million aftertax gain on December 31, 2008; and (3) the sale of the $10 million credit card portfolio of QCBT, which was sold at an $0.8 million pretax gain in 2013.



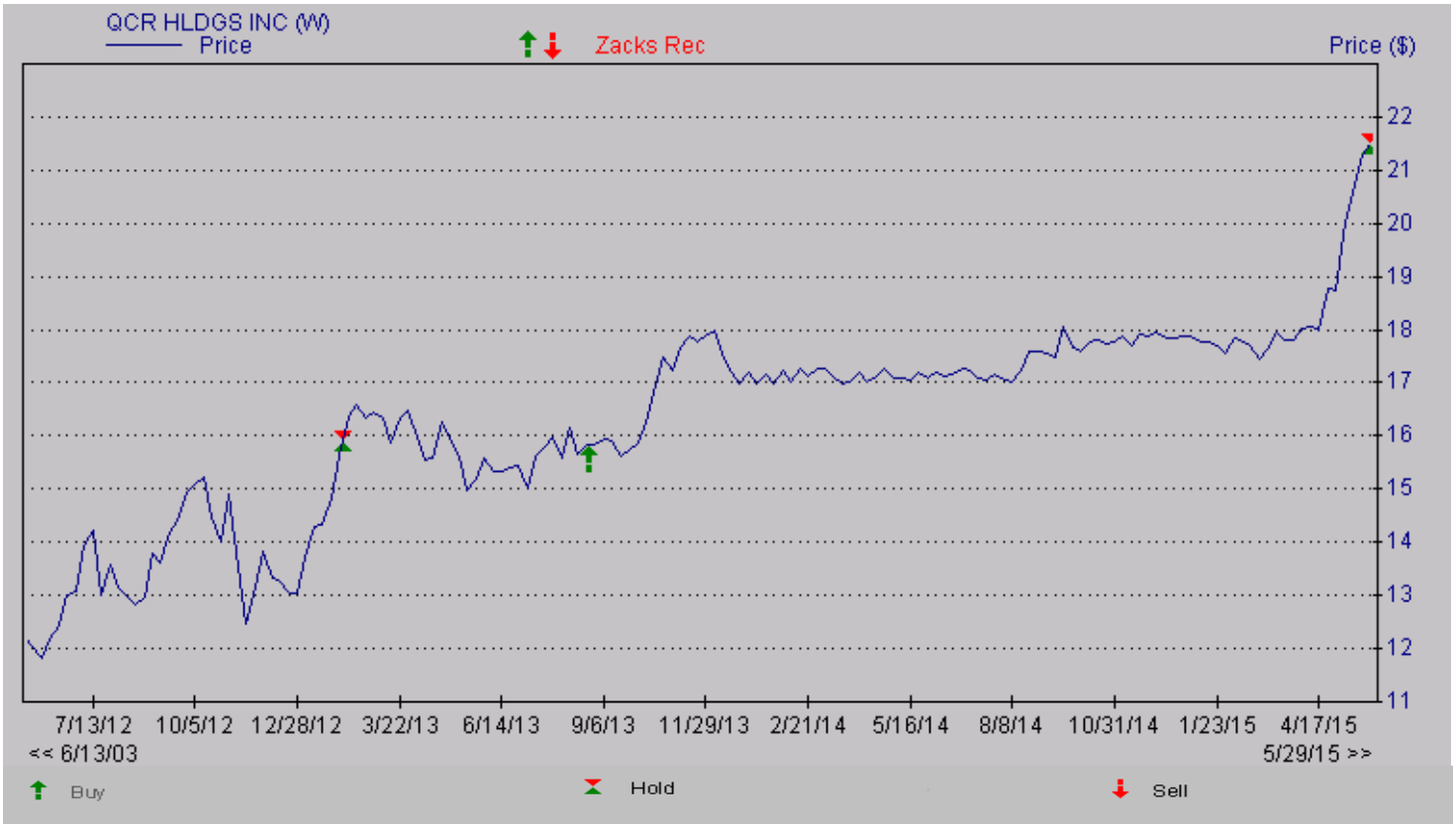
The $1.6 billion loan portfolio has a concentration in commercial real estate, accounting for 43% of total loans at December 31, 2014, of which about 47% is nonowner-occupied, 40% is owner-occupied, and 13% is construction and land development. The rest of the lending book consists of commercial and industrial (accounting for 32% of total gross loans), direct financing leases (10%), residential real estate (10%), and consumer (5%). Most loans are secured, usually by real estate, inventory, accounts receivable, equipment, machinery, or corporate assets.

The liquidity portfolio, consisting of cash, short-term investments, and US agency/residential mortgage-backed securities (RMBS) obligations, represents 21% of total assets, while gross loans and leases account for 65%. Noninterest-bearing demand deposits accounted for 31% of total deposits of $1.7 billion at December 31, 2014, with interest-bearing demand and savings deposits at 47%, time deposits at 18%, and brokered time deposits at 4%.

In 2014, net interest income contributed 77% of net revenue. Other significant revenue sources include trust department fees (6% of net revenues), deposit service fees (5%), gains on loan sales (3%), investment management and advisory fees (3%), and other (6%).



HISTORICAL ZACKS RECOMMENDATIONS



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Ann H. Heffron, CFA, CPA, , hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered to be reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESMENT BANKING, REFERRALS, AND FEES FOR SERVICE

Zacks SCR does not provide nor has received compensation for investment banking services on the securities covered in this report. Zacks SCR does not expect to receive compensation for investment banking services on the Small-Cap Universe. Zacks SCR may seek to provide referrals for a fee to investment banks. Zacks & Co., a separate legal entity from ZIR, is, among others, one of these investment banks. Referrals may include securities and issuers noted in this report. Zacks & Co. may have paid referral fees to Zacks SCR related to some of the securities and issuers noted in this report. From time to time, Zacks SCR pays investment banks, including Zacks & Co., a referral fee for research coverage.

Zacks SCR has received compensation for non-investment banking services on the Small-Cap Universe, and expects to receive additional compensation for non-investment banking services on the Small-Cap Universe, paid by issuers of securities covered by Zacks SCR Analysts. Non-investment banking services include investor relations services and software, financial database analysis, advertising services, brokerage services, advisory services, equity research, investment management, non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per client basis and are subject to the number of services contracted. Fees typically range between ten thousand and fifty thousand USD per annum.

POLICY DISCLOSURES

Zacks SCR Analysts are restricted from holding or trading securities placed on the ZIR, SCR, or Zacks & Co. restricted list, which may include issuers in the Small-Cap Universe. ZIR and Zacks SCR do not make a market in any security nor do they act as dealers in securities. Each

Zacks SCR Analyst has full discretion on the rating and price target based on his or her own due diligence. Analysts are paid in part based on the overall profitability of Zacks SCR. Such profitability is derived from a variety of sources and includes payments received from issuers of securities covered by Zacks SCR for services described above. No part of analyst compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports are based on data obtained from sources we believe to be reliable, but are not guaranteed as to be accurate nor do we purport to be complete. Because of individual objectives, this report should not be construed as advice designed to meet the particular investment needs of any investor. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.

ZACKS RATING & RECOMMENDATION

ZIR uses the following rating system for the 1124 companies whose securities it covers, including securities covered by Zacks SCR:
Buy/Outperform: The analyst expects that the subject company will outperform the broader U.S. equity market over the next one to two quarters.
Hold/Neutral: The analyst expects that the company will perform in line with the broader U.S. equity market over the next one to two quarters.
Sell/Underperform: The analyst expects the company will underperform the broader U.S. Equity market over the next one to two quarters.

The current distribution is as follows: Buy/Outperform- 24.3%, Hold/Neutral- 58.5%, Sell/Underperform – 14.6%. Data is as of midnight on the business day immediately prior to this publication.