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Merrill Lynch & Co., Inc.

BROKER/DEALER

NYSE: MER - $67.12

RATING: BUY
12-Month Price Target: $95.00

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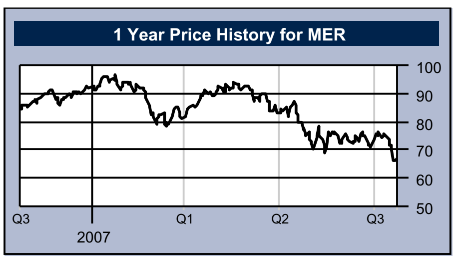
MARKET DATA

Market Cap.	$57.9 Bil.
Price/Book	154%
Price/Tang. Book	171%
52-Week High	$98.68
52-Week Low	$64.65
3-Mo. Avg. Daily Volume	14,862,833
Dividend Yield	2.09%
Total Assets	$1,076.3 Bil.
* As of	06/30/2007
ROE	NM
* As of	09/30/2007
Shares Outstanding (Mil)	862.6
Annual Dividend	$1.40
Institutional Ownership	75.8%
Insider Ownership	0.9%



Merrill Lynch is a premier global investment bank and has attained a worldwide market leadership position across both of its primary business lines of investment banking and private client services. Merrill has two business segments that are managed as stand alone entities. Global Markets and Investment Banking (GMI) and Global Wealth Management (GWM). Merrill Lynch Investment Managers (MLIM) was sold to BlackRock in 3Q06. Merrill Lynch is headquartered in New York City and maintains a presence in 37 countries around the world. At the end of 2006, the company had 56,200 full time employees.

That Will Leave a "Mark": 3Q07 First Look

EPS

	Mar	Jun	Sep	Dec	Year	Growth	Est. Change	P/E
2006A	$0.44	$1.63	$3.17	$2.41	$7.59	47.1%	—	8.8x
2007E	$2.26A	$2.24A	$(2.85)A	$2.00	$6.02	(20.7%)	—	11.1x
2008E	$2.24	$2.16	$1.92	$2.83	$9.15	52.0%	—	7.3x

- MER announced a 3Q07 loss of $2.85 per share, significantly lower than the $(0.50) per share it preannounced on October 5. The primary earnings delta is driven by writedowns across CDOs and U.S. subprime mortgages of $7.9 billion, versus $4.5 billion previously announced.
- How did CDO and subprime mortgage marks deteriorate by 76% since the company preannounced on 10/5/07? Management noted that it re-examined its remaining CDO positions, taking more conservative assumptions, with additional analysis and price verification. We find the concept of dramatic retroactive valuation changes particularly concerning from a risk management standpoint. When one position is not accurately marked, neither hedging strategies nor aggregating risk can be done effectively.
- Outside of FICC, Equity Markets, Investment Banking, and GWM all generated solid revenues. Unfortunately, this provides little solace, as 3Q07 losses reduced MER's YTD ROE to 6.5%.
- The comp expense ratio was 345% in the quarter given such a low revenue base. We believe the implications are that MER will be focused on employee retention, and a typical fourth quarter comp true-up should not be expected.
- What's next? While MER cut back CDO and subprime exposures, it still has $15.2 billion ABS CDO and $5.7 billion U.S. subprime exposure, and the subprime asset market as measured by the ABX BBB- index has not been going the right way (down over 35% since September 30).

- The magnitude of MER's relative losses lead us to suspect that this is a MER specific issue, but it may lead people to believe other investment banks were not conservative enough in their quarter-end marks.
- Management will host a conference call at 10:00 AM Eastern. The dial-in number is 888-810-0245. We will review our price target and estimates following the call.

Results Versus Our Expectations
($ in millions)

	3Q07E	3Q07A	A-E $	A-E %	YOY %
Net Revenues					
Debt Markets	-$3,000	-$5,572	(2,572)	86%	-368%
Equity Markets	$1,675	$1,581	(94)	-6%	4%
Underwriting	$687	$625	(62)	-9%	12%
Strategic Advisory	$298	$385	87	29%	48%
Total GMI	**-$339**	**-$2,981**	**(2,642)**	**778%**	**-167%**
Transactional/Origination Revs	$836	$989	153	18%	44%
Fee-based Revs	$1,634	$1,605	(29)	-2%	11%
Net Interest profit and related hedges	$593	$584	(9)	-1%	13%
Other revenues	$117	$90	(27)	-23%	17%
Global Investment Management net revenues	$330	$270	(60)	-18%	210%
Total GWM	**$3,510**	**$3,538**	**28**	**1%**	**26%**
Total MLIM	**$0**	**$0**	**0**	**NA**	**NA**
Total Corporate	**-$75**	**$20**	**95**	**-127%**	**300%**
Total Net Revenues	**$3,096**	**$577**	**(2,519)**	**-81%**	**-93%**
Non-Interest Expenses					
Compensation and benefits	$1,594	$1,992	398	25%	-48%
Total Non-Compensation Expenses	$2,058	$2,050	(8)	0%	16%
Total Non-Interest Expenses	**$3,652**	**$4,042**	**390**	**11%**	**-27%**
Pretax Income	-$557	-$3,465	(2,908)	523%	-247%
Income tax expense	-$167	-$1,199	(1,032)	618%	-385%
Income Tax Rate	30.0%	34.6%			
Preferred stock dividends	$72	$73	1	1%	46%
Net Earnings Applicable to Common	-$462	-$2,339	(1,877)	407%	-224%
Diluted EPS	**-$0.50**	**-$2.85**	**(2.35)**	**467%**	**-190%**
Weighted Average Diluted Shares	920	822	(98)	-11%	-13%
Key Statistics					
Pretax Margin	-18.0%	-600.5%			
Compensation Expense/Net Revenues	51.5%	345.2%			
Total Client Assets ($ billions)	$1,720	$1,762	42	2%	14%
Net New Money	$5	$26	21	420%	86%
FAs	16,362	16,610		2%	6%

Source: Company reports and Sandler O'Neill estimates

APPENDIX

I attest that all of the views expressed in this report accurately reflect my personal views about the security and/or industry covered by this report as of the date of this report, and that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this report. S/ Jeff Harte

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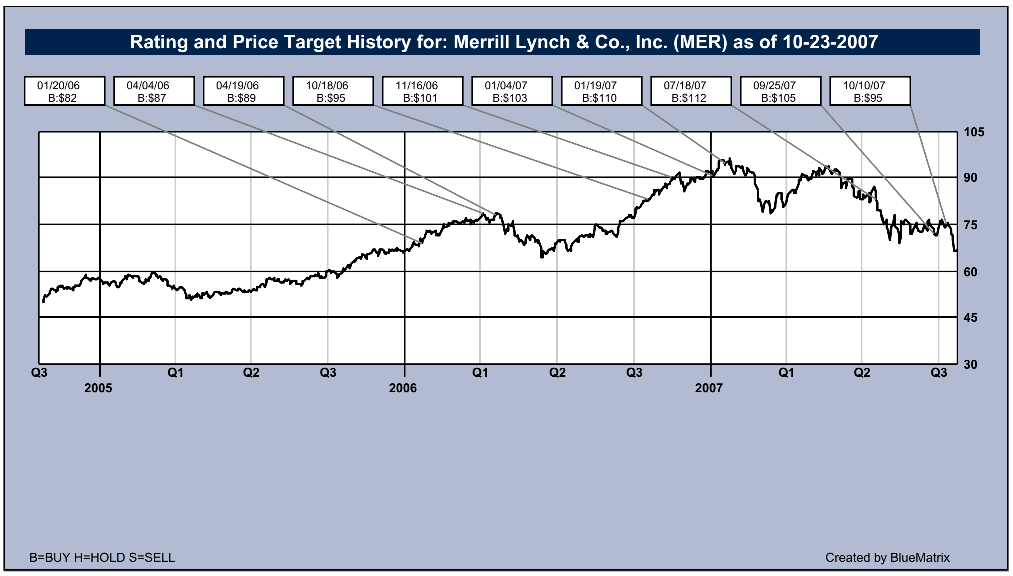
IMPORTANT DISCLOSURES:



Price Target

Our 12-month price target is $95.

Valuation Methodology

Our price target represents 2.2x our 3Q08 book value estimate of $43 per share, which is 75% of the S&P 500's current book value multiple of 2.9x times. This is approximately 20% above Merrill Lynch's 10-year average multiple as a percent of the S&P 500's price-to-book multiple and is an approximate 15% discount to its high relative valuation.

Risk Factors

The primary risk to our price target arises from the possibility that the global economic growth may falter. A related risk is that there is a sustainable global economic recovery but that it differs from prior economic recoveries in that it is not accompanied by a cyclical recovery in corporate finance and advisory activity. We also believe that Merrill Lynch faces above-average regulatory risk due to its large retail brokerage operations.

Distribution of Ratings/IB Services Firmwide

Sandler O'Neill + Partners

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY [B]	53	29.12	24	45.28
HOLD [H]	126	69.23	45	35.71
SELL [S]	3	1.65	1	33.33

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