

A Brief History of the DAX

Heavyweights, Takeovers, Climbers and Reshuffles

Author: Matthias Born, Manager of the Allianz German Equity fund at Allianz Global Investors

Stable Heavyweights and a Few Takeovers

Over the past 25 years, the DAX has remained relatively stable: 16 of the 30 stocks in the index have been around since its inception on July 1, 1988. These 16 companies have been and still are the heavyweights of the DAX, amounting to about three quarters of the weighting. But what about the other stocks? And how has sector weighting in the blue-chip German index shifted over the years?

With a quarter of a century behind it, the DAX has seen a fair amount of takeovers, mergers, insolvencies, and restructurings. Nine of the original DAX-members were taken over. Among them are three banks, namely Bayrische Hypobank, Bayrische Vereinsbank – which merged to create Bayrische HypoVereinsbank in 1988 – and Dresdner Bank. And there was also takeovers of Höchst, Schering, and Degussa. The most dramatic takeover, however, was Mannesmann. Two utilities companies, VEBA and VIAG, merged to form E.ON AG in 2000. And MAN descended from the DAX to the MDAX (midcap stock index) after Volkswagen acquired a majority stake in 2012. Then we saw Kaufhof renamed Metro after its merger with Metro Cash & Carry in 1996, and it now finds itself in the MDAX as well. The first company to leave from the DAX was Feldmühle Nobel. It changed its name to Dynamit Nobel in 1990 only to be taken over by today's Stora Enso shortly afterwards.

Two original members had to file for insolvency. In 1995, Deutsche Babcock was the first to be dropped from the DAX due to too low market capitalization – the company was replaced by SAP. Deutsche Babcock, now Babcock Borsig (after having taken over the industrial- and shipyard business from Preussag), eventually had to file for bankruptcy in 2002. A similar destiny with insolvency befell original member Karstadt, renamed Arcandor, in 2009.

Then we had Nixdorf Computer AG, once one of the most important European computer manufacturers, which went through a restructuring marathon. Taken over by Siemens in 1990, the supplier of IT solutions to retailers and banks, is currently listed as Wincor Nixdorf on the MDAX, whereas the computer division became part of Fujitsu through the joint venture of Fujitsu Siemens. The traditional Höchst AG brand had to experience a similar fate when it merged with Rhône Poulenc in 1999 to create Aventis, which shortly after became a part of Sanofi. The non-pharmaceutical activities were spun off as Celanese and sold to the crop protection division of Bayer.

The most enthralling takeover certainly was that of Mannesmann. In 2000, Vodafone launched a hostile takeover for Mannesmann and the battle raged for months. In the end, Mannesmann's board agreed to Vodafone's offer of 112 billion pounds, making it the largest corporate merger in history up to that point. Bayer's takeover of Schering in 2006 was similarly dramatic. Initially, Merck KGaA attempted a takeover which prompted Bayer to act as a "white knight" by offering the shareholders a much higher price. Merck, which already held 21 percent of Schering, eventually gave in and sold all its shares to Bayer. Large parts of Degussa, which was taken over by RAG in 2004, are now back in the stock market. Today they are listed as Evonik Industries. Degussa's construction chemical business however was bought by BASF.

Rising and Falling stars

SAP and Deutsche Telekom are today's heavyweights among the newcomers. Their performance on the DAX could not be more different. SAP's primary listing was at about 10 euro. Nowadays, shares of SAP trade around 58 euro. Deutsche Telekom's issue price was 14.57 euro, and it shot through the roof shortly afterwards, to over 100 euro, but shares now trade around 9 Euro. Other new members in the "upper class" are Deutsche Börse, Deutsche Post, Adidas, Fresenius, Fresenius Medical Care, HeidelbergCement, Merck, Infineon, Beiersdorf, K+S, and Lanxess.

Hannover Rück holds the inglorious record for shortest membership in the DAX. In 2009, it managed to stay in the DAX for only 6 months.

And Continental has been in and out of the index the most often: It was one of the original members in 1988, but dropped to the MDAX in 1996. In 2003, however, it managed to be a component of the DAX once more but lost its position in 2008. However, since September 2012, it has again been a part of the DAX family.

The oldest company listed on the DAX is Merck KGaA whose roots go back to 1668. Merck is also the oldest pharmaceutical and chemical company in the world. MAN, founded in 1758, had been the oldest DAX-listed company.

The Heavyweights Lose Weight

Viewing the DAX from a sector perspective, it becomes clear that the sectors that were once the biggest have lost index weighting to other sectors. This change in weighting has partly been caused by major corporate developments, such as Bayer's realignment, which saw it disassociate from its chemical business and acquired new companies in the pharmaceutical area. Or Henkel, which moved from the chemical sector into the consumer goods sector.

In 1988, banks, insurers, and the chemical industry were the biggest sectors with a share of the DAX weighting of approximately 25 percent each. While over time the financial industry has lost some index weighting due to acquisitions and under-performance, it is still the largest sector. The chemical sector has fallen from 25 to 14 percent, though this is mostly due to Bayer and Henkel now being part of other sectors, namely the pharmaceutical and the consumer goods sectors. Much of the readjustment can be traced back to the number of takeovers. One recalls Degussa-Hüls, Höchst, and Schering. And the automobile sector has suffered from the weak price development of Daimler shares and has lost four percentage points to 15 percent of its DAX weighting.

In contrast, the pharmaceutical industry as well as the technology sector are now on the winner's side. The pharmaceutical sector profited particularly from the restructuring of Bayer, but also from the new DAX members: Fresenius, Fresenius Medical Care, and Merck. World market leader SAP has of course increased the weighting of the technological segment.

Revenues Increase Outside of Europe

In the middle of the 90s, 78 percent of the revenues of the original DAX members were generated in Europe; in 2012 they only accounted for 52 percent. This development is largely due to an increase in sales in Asia. Over the past 20 years, revenues from Asia have jumped from 3 to 14 percent. During the same time, revenues in the US increased from 16 to 22 percent.

In 1994, Bayer, Schering, and Höchst were the most globalized companies: 40 percent of their revenues were generated outside of Europe, especially in the US. BASF, MAN, Daimler, and BMW achieved 30 percent non-European sales. Nowadays, the number of companies with high revenues outside of Europe is much larger. This group includes Adidas, Bayer, Daimler, Fresenius Medical Care, Fresenius, Infineon, K+S, Linde, Volkswagen, and Lanxess. The US markets plays a significant role for Fresenius Medical Care, Linde, and the car manufacturers. Asia is a huge market for Adidas, Linde, Volkswagen, and Lanxess, and a big contributor to their growth.

Despite a smaller shares of sales, emerging markets are an important driver of growth for many DAX companies. Over the last three years, SAP has grown in China by 30 percent annually. A similar development can be observed at Henkel. Though sales in developed markets fell by 1.5 percent for Henkel in the first quarter of 2013, sales in emerging markets grew by 8.2 percent.

Conclusion: Globalization Has Changed the Makeup of the DAX

The sales figures reveal that the major changes within the DAX could most likely to be attributed to globalization. The 16 permanent members (up to now), which together made up 75 percent of the weighting of the index in 1988, still account for roughly 70 percent today. This surely reflects the enduring success of German flagship-companies over the past 25 years. At the same time, their relative positioning within the DAX has changed. This underlines the importance of stock picking for investors: it is important to have the right companies in the portfolio.

– End –

For further information please contact:

Stefan Lutz, Phone +49 69 24431 4276, Email: stefan.lutz@allianzgi.com

Marc Savani, Phone +49 69 24431 4206, Email: marc.savani@allianzgi.com

Klaus Papenbrock, Phone +49 69 24431 2476, Email: klaus.papenbrock@allianzgi.com

Stefanie Waldeck, Phone +49 69 24431 4670, Email: stefanie.waldeck@allianzgi.com

About Allianz Global Investors

Allianz Global Investors is a diversified active investment manager with a strong parent company and a culture of risk management. With 23 offices in 18 countries, we provide global investment and research capabilities with consultative local delivery. We have more than EUR 316 billion in AUM¹ for individuals, families and institutions worldwide and employ over 500 investment professionals.

At Allianz Global Investors, we follow a two-word philosophy: **Understand. Act.** It describes how we look at the world and how we behave. We aim to stand out as the investment partner our clients trust by listening closely to understand their challenges, then acting decisively to provide them with solutions that meet their needs.

¹ Combined worldwide assets as at 31 March 2013.

Data as at 31 March 2013

Disclaimer:

Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.

The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication.

The data used is derived from various sources, and assumed to be correct and reliable, but it has not been independently verified; its accuracy or completeness is not guaranteed and no liability is assumed for any direct or consequential losses arising from its use, unless caused by gross negligence or wilful misconduct.

This is a marketing communication. Issued by Allianz Global Investors Europe GmbH, an investment company with limited liability incorporated in Germany, with its registered office at Mainzer Landstrasse 11-13, D-60329 Frankfurt/Main, authorized by Bundesanstalt für Finanzdienstleistungsaufsicht (www.bafin.de).