

# Cult Status

*Entrepreneurs—driven by the desire to make expensive California wines that attract a devoted following—are getting help from oenophile investors like TPG co-founder William Price.*

By EDWARD ROBINSON

Photographs by ROBYN TWOMEY



**O**n a warm October afternoon, a steel-framed concrete warehouse north of San Francisco is inundated with grapes. Forklifts bearing fruit from the nearby Russian River Valley deliver their loads to a slow-moving conveyor belt. Flanking both sides, winemaking interns pick out stems and sunburned grapes as they groove to hip-hop music thumping from loudspeakers.

It's the crush at Kosta Browne Winery, a Sonoma County-based maker of pinot noir that's become one of the hottest wineries among





**MICHAEL BROWNE**  
has a two-to-six-  
year waiting list  
for his pinot noir.



investment bankers, venture capitalists and enthusiasts. Michael Browne, Kosta Browne's co-founder and winemaker, grabs a cluster from a tub and eats some of the grapes. They burst with berry flavor, and the seeds are nutty, not bitter. "They're popping; they're ripe," shouts Browne, 42, a ruddy-faced man with Elvis-style sideburns. "They're beautiful."

William Price, a co-founder of buyout firm TPG Capital in Fort Worth, Texas, would be happy to hear that. Price, whose Vincraft Group owns a majority stake in Kosta Browne, is one of a number of investors betting on the next generation of California cult-wine makers. These ultra-premium wineries shun retailers and make it hard to buy their wines, spurring a following through word of mouth. Cult pioneers—Colgin Cellars, Harlan Estate and Screaming Eagle—reshaped the economics of the high-end market by fetching Bordeaux-caliber prices at auction. The new crop of wineries is now reaching for cult status in an industry where it can take decades to turn a profit.

*f*or years, Browne and his partner, Dan Kosta, scraped together money every harvest to buy grapes and lease space and equipment at nearby wineries to make their pinot. They toiled at night as waiters and bartenders so they could devote their days to the exploitation of the grape. Bedeviled by rogue yeasts and other oenological disasters, the two men felt at times they might lose their sanity along with their business, Browne says. "The wine business is like a step up from a dot-com," the winemaker says. "It's very shaky, and it takes so much longer to make money than other businesses."

The romance of vineyard life has long drawn the rich and famous, from filmmaker Francis Ford Coppola to billionaire



Stan Kroenke, the owner of the St. Louis Rams pro football team who acquired Screaming Eagle in 2006.

For all of the angst about the economy in the real world, the good times are rolling in the rarefied domain of high-end wine. Buoyed by rising demand from flush Asian and Latin American collectors, the Liv-ex Fine Wine 100 Index, which tracks the price movement of the world's most-sought-after wines, soared 39 percent in the 12 months ended on Nov. 30. The world's top auction houses sold an all-time high of \$252 million in fine wines in 2010 through mid-December, according to data compiled by Bloomberg. Stellar California reds are drawing record prices. Six bottles of Harlan Estate's 1997 vintage from the Napa Valley sold for \$7,170—30 percent higher than the top estimate of their value—at an October auction in Chicago by Hart Davis Hart Wine Co. "Even in a down economy, prices are astronomical," says Jack Daniels, co-founder of Wilson Daniels Ltd., a wine marketing firm in St. Helena, California. "But wine is like art. It takes a place in people's hearts and minds, and the next thing you know, they have to have every vintage."

***TPG's Price*** says he looks for winemakers with 'a brand that stands for something individualistic.'



TPG co-founder  
**WILLIAM PRICE**  
now focuses  
on investing  
in winemakers.

Or in Price's case, wineries of his own. In 1996, he co-led TPG's \$350 million acquisition of Napa Valley-based Beringer Vineyards from Swiss food giant Nestle SA. Four years later, TPG, which was then known as Texas Pacific Group Ltd., sold Beringer to Australian beverage maker Fosters Group Ltd. for \$1.5 billion, a fourfold return. Price, 54, owns 129 planted acres (52 hectares) in Durell Vineyard, a farm in the Sonoma Valley that sells top-quality grapes to more than two dozen labels. He also started his own Sonoma-based winery, Three Sticks, and invested an undisclosed sum in Kistler Vineyards, a renowned maker of chardonnay and pinot noir, and Buccella, a cult Napa cabernet label.

Now, Price has set out to earn profits for outside investors by bringing together a raft of exclusive fine wines in Vincraft. A wine lover himself, Price in 2008 formed Sonoma-based Vincraft as a portfolio company in the \$2.5 billion TPG Growth Fund. In Vincraft's debut deal the following year, it took control of Kosta Browne and restructured its debt in

a transaction worth \$40 million. Price is backing vintners who have honed the art of building far more demand for their wine than the available supply, which isn't easy in a marketplace flooded with thousands of labels. "I'm looking for people who are passionate and who have a brand that stands for something individualistic," says Price, who scaled back his role at TPG in 2006 to focus on philanthropy and wine. "And obviously, they have to make good wine."

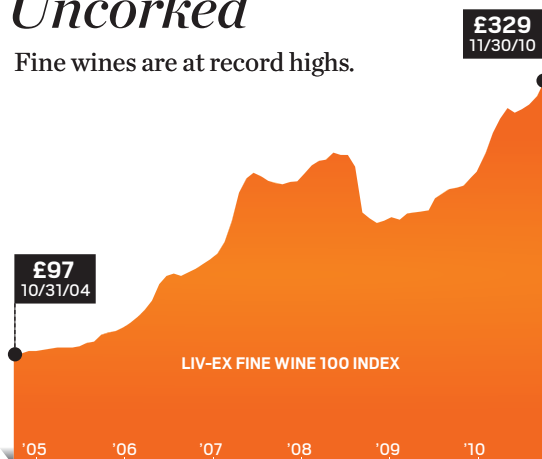
**b**rowne and his partners have stoked their wine's allure by refusing to sell it in stores or ramp up production even as their wine becomes more popular. Wine lovers must wait two to six years to land a spot on Kosta Browne's mailing list and receive allocations of three to six bottles a year at up to \$72 each. Those not in the club can purchase a bottle at independent online merchants such as Snooth.com, but the price jumps to \$179. Upscale restaurants such as Spago Beverly Hills in California or Craft in Manhattan also sell Kosta Browne.

Browne's standout pinot noirs, laced with electric flavors of cherry and cranberry, have won a following in financial circles. In April, Johnny Williams, the head of Bank of America Merrill Lynch's mergers and acquisitions banking group for technology companies, asked Kosta Browne to pour its pinot to cap an investors conference he hosted at the St. Regis Hotel in San Francisco. "He just cherished this wine," says Tania Modic, an angel investor who attended and became a Kosta Browne fan herself.

Converting grapes into what Homer called the "gate of the heart" is a daunting task. You're at the mercy of the climate and under threat from pests, mold and botanical diseases. And you have to commit capital, often borrowed, for years to nurture vines that may never yield superior fruit, let alone earnings.

## Uncorked

Fine wines are at record highs.



Source: Liv-ex



Even Kosta Browne, which doesn't own vineyards and buys its grapes from growers, is dependent on the vagaries of nature.

Vintners weathered a hard 2010 in Sonoma and Napa counties, the heart of California wine country: Cool temperatures prompted many to prune leaves and expose the grapes to more sunlight. Then, in late summer, two sudden heat waves fried a lot of fruit, and some vineyards lost virtually their entire crop. The state's 2010 harvest was on course to hit 3.3 million tons, down 12 percent from the prior year, according to a November estimate by the Wine Institute, a trade group in San Francisco.

"No one in his right mind would do this for the economics," says H. William Harlan, the proprietor of Harlan Estate, which paved the way for later cult producers. "You have to have a strong reason to do this other than return on investment, and for me, it was carving something out of raw land."

**h**arlan, who with his white Lincolnesque beard looks like he stepped from a 19th-century photograph, says it took him 20 years to reap profits after he planted 40 acres of cabernet sauvignon, merlot and other Bordeaux grapes in the rocky hillsides of the Oakville section of the Napa Valley. After making a fortune in real-estate development, he set out in 1975 to create a Napa winery that could go head-to-head with Chateau Lafite Rothschild and the other prestigious "first-growth" houses of



## Cult Classics

Harlan Estate and Colgin Cellars blazed the way for a fresh crop of California super-wines.

<b>1997 Harlan Estate Red Wine</b> A powerful, earthy Napa cab fetching Bordeaux-level prices at auctions	<b>Release Price: \$225</b> <b>Auction price: \$1,294</b>
<b>2006 Colgin IX Estate Napa Valley Red Wine</b> An elegant, floral red boasting a rare, perfect 100 score from Robert Parker	<b>Release Price: \$290</b> <b>Auction price: \$637</b>
<b>2005 Kosta Browne Kanzler Vineyard Pinot Noir</b> A Sonoma wine with electric black-cherry flavor that's winning devotees among finance types	<b>Release price: \$72</b> <b>Online price: \$179*</b>
<b>2007 Tetra Red Wine</b> A meritage blend from four hillside vineyards with a plush, 40-second finish	<b>Release Price: \$110</b> <b>Online price: \$110*</b>

\*Post-release price in online secondary market.  
Sources: Wineries, Hart Davis Hart, Snooth.com

Bordeaux. It was a grandiose ambition for a man who grew up in East Los Angeles as the son of a slaughterhouse worker. Today, Harlan's reds are prized by wine lovers for a nose that evokes the forest floor and dense flavors of fruit on the palate that unfold in waves.

"I wanted to make wine that would be recognized in every key market in the world," says Harlan, 70, whose winery in October threw a series of lavish dinners and tastings in Singapore, Macau and even Ho Chi Minh City, Vietnam, to win over Asian collectors. "If you do that, the economics will follow." Beneath his winery, he enters an aging cellar the length of a basketball court stacked with French oak barrels that hold the 2009 vintage. Each barrel's contents, he notes with a smile, are worth \$150,000.

Browne and Kosta, both Harlan admirers, have been toiling for 13 years to achieve cult status of their own. A native of the state of Washington, Browne discovered wine in the mid-1990s while working at John Ash & Co., a tony eatery in Santa Rosa, California. A tinkerer obsessed with making things with his hands, Browne became infatuated with the stainless-steel tanks and plumbing contraptions of winemaking. So at the age of 27, he volunteered to become an unpaid cellar rat at the Deerfield Ranch Winery in nearby Kenwood. There, he found a mentor in vintner Robert Rex, a chemist who had started making wine in his Berkeley garage in the 1970s. Rex steeped Browne in so-called sensory analysis, the art of





**CLOCKWISE FROM TOP LEFT:** At Kosta Browne, grapes are dumped onto a **CONVEYOR BELT** where damaged fruit is removed. Some grapes are **PRESSED BY FOOT**. Crushed grapes are poured into **FERMENTATION TANKS** for about 15 days. Wine ages in **FRENCH OAK BARRELS** for up to 16 months.



using the nose and palate to discern the metamorphosis of fermenting grapes. Browne was hooked. “They are producing something from a raw product, and that just really turned me on,” says Browne, who speaks in bursts of words and seems to be in a constant hurry. “Then I walked into a barrel room, and it just exudes life and energy. You could just feel and smell that there’s something going on in there besides just barrels of liquid.”

In 1997, Browne joined forces with fellow John Ash employee Kosta. They opted to work with pinot noir, a finicky and fragile grape. With a few months’ worth of tips, they bought a half ton of pinot grapes and made a barrel of wine. The pinot grape is so finicky and delicate, even Burgundian vintners struggle to convert it into superb wine after centuries of practice. “It turned out pretty good,” says Browne, who never did

pause long enough to go to oenology school. Kosta Browne Winery was born.

By 2001, the two men were struggling every year to finance the bottling of another vintage. So they brought in Chris Costello, a recent economics grad from the University of California, Los Angeles, as a partner in the winery. With the help of Costello’s father, Jim, a Sonoma real-estate developer, they raised \$350,000, primarily from friends and family members. Then, in 2003, they were in the middle of distributing their 2001 vintage

when they discovered the bottles were infected with *brettanomyces*, a yeast that makes wine fizzy and off-putting. They had to recall 50 cases from customers, refund their money and shelve 150 cases.

**browne and his** partners pressed on. They plumbed wine blogs and chat rooms for influential enthusiasts and invited them to the winery to barrel taste. The partners also threw catered tasting parties at the homes of fans gratis to spread the word. Then, in 2005, *Wine Spectator* critic James Laube bestowed a rare 96 score out of 100 to Kosta Browne’s 2003 Kanzler Vineyard pinot from the Sonoma Coast. Pinot heads on the Web started buzzing about this hot new offering. More



demand was spurred by the 2004 comedy *Sideways*, which championed pinot noir as the most “haunting, brilliant and thrilling” varietal on the planet. California wineries crushed about 156,000 tons of pinot noir grapes in 2009, more than double the 70,000 tons processed in 2004, according to the Wine Institute.

Even as Kosta Browne’s annual production reached 11,000 cases, which is high for a pure mail-order operation, the partners resisted the temptation to go retail. They told would-be customers they’d have to wait a year or so to receive an allotment of bottles. “You have to maintain the buzz and the scarcity,” Browne says.

When they decided in 2009 to seek a buyer to recapitalize the company, the winery’s viral marketing and discipline caught the eye of Price. As Vincraft and TPG lawyers commenced due diligence in June 2009, Kosta and Browne

**WILLIAM HILL**  
invests in vineyards  
that provide grapes  
to premium wineries.



## ***No one in*** his right mind would do this for the economics,’ Harlan says.

recoiled at the dissection of their business. The acquirers analyzed whether they had too much turnover in their mailing list and balked at how Kosta Browne bought half of its fruit on handshake deals with growers. They also set rules for how the company would be governed. The partners almost quit the deal three times. “We were asking, ‘Are we going to have a gorilla on our back here?’” Browne says. Yet Price’s commitment to continue making exclusive, handcrafted wine trumped their anxieties, and they closed the deal in September 2009.

Investors William Hill and Richard Wollack are taking a different tack by betting on the vineyards that supply fruit to top-quality wineries such as Kosta Browne. The duo heads Premier Pacific Vineyards, which is backed by \$200 million from the California Public Employees’ Retirement System, the largest public pension fund in the U.S. Since 2002, Hill and Wollack have acquired 23 farms in the California coastal ranges, Oregon’s Willamette Valley and Washington state.

**h**ill has built a model for analyzing the soils, airflow, humidity and even the angle of the sun to choose which vineyards to buy. He shuns properties on valley floors, where rich soil fuels large but flaccid fruit. Instead, he prefers rocky hillsides where distressed vines, in a push to reproduce, pump energy into blueberry-sized grapes that concentrate flavor and ultimately yield more-complex wines. “You have to question why a certain property has the potential to make great wine,” says Hill, kicking at the stony earth of his Broken Rock Ranch on a slope just south of the Stags Leaps section of Napa. “That’s what guides our investment methodology, and that’s what enables you to produce a higher profit margin on the grapes.”

Now, in a separate venture, the pair has released its own would-be cult wine, a meritage blend called Tetra that draws cabernet sauvignon, merlot, cabernet franc and petit verdot grapes from four Napa vineyards. In 2009, wine critic Robert Parker praised the 2007 vintage’s “40-second finish” and gave the wine, which sells for \$110 a bottle, a score of 94 on his 100-point scale.



Cult wine pioneer  
**WILLIAM HARLAN**  
took 20 years to  
reap profits.





**ANN COLGIN's** wine fetches about \$290 a bottle from mailing-list customers.

Vintner Ann Colgin, whose wines sell for about \$290 a bottle to customers on her mailing list, has achieved the kind of success to which younger producers aspire. Colgin, 52, a former Sotheby's art auctioneer who zips around Napa in a burgundy-colored Lexus sports car with a vanity plate that reads "HALF BTL," has been making cult reds since 1992. Eight years later, she planted 20 acres of cabernet sauvignon, syrah and other grapes on a sun-drenched parcel high in the hills. "It took giant earth movers and dynamite to clear the rocks from here," Colgin says, pointing to the precise rows of vines running down the hillside. "But the land dictates what our wine will taste like."

**C**olgin Cellars produces a sultry cabernet that balances purity and earthiness. At the Auction Napa Valley, an annual charitable event in June, a set of eight magnums of Colgin's Cariad red sold for \$250,000.

Colgin's estate conveys a sense of the California good life to her customers, many of whom are hedge-fund managers. On an October afternoon, Colgin and her husband, Joseph Wender, a one-time M&A banker at Goldman Sachs Group Inc., escort guests into a dimly lit cellar. One

chamber is filled with Colgin's own wines. Another room is filled with thousands of rare bottles collected over three decades. Imperials, salmanazars and other oversize bottles are mustered in the center of the room like artillery shells. "This would make for quite a party," Colgin says with a smile, tapping a torpedo-sized bottle of champagne.

While Colgin's luxurious aerie stands worlds apart from Kosta Browne's warehouse, both are pursuing the same goal: perfection. Hunched over a barrel at his facility, Browne siphons ruby-colored pinot into a glass. "It concentrates in the center of the palate, and then it will show the fruit and bleed down the side of the palate," he says. After an initial burst of cherries, plum and blackberry flavors unfold in a long finish. It's hard to say what makes a wine perfect, and there are some who would call this pinot a bit flashy. Yet Browne's handiwork leaves the mouth watering for more. That, plus savvy viral marketing and the discipline to limit production, is how cults are born.

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