



Highest elevation of Mount Eden Vineyards overlooking Santa Clara Valley.

Mount Eden Vineyards expands with *Domaine Eden* and Silicon Valley Bank financing

BY Cynthia Bournellis

Mount Eden Vineyards, a 40-acre estate in the Santa Cruz Mountains above Saratoga, Calif., has a history shrouded in mystique nearly as thick as the fog that occasionally surrounds its vineyards. It is this mystique and—more important—the minimalistic, unwavering winemaking and viticultural practices of owner, winemaker-grower Jeffrey Patterson that have given rise to what wine critics call some of the most elegant, balanced and sophisticated California wines.

Located 2,000 feet above the Santa Clara Valley, Mount Eden has made three wines from the estate since 1972: Chardonnay, Pinot Noir and a Bordeaux-style Cabernet Sauvignon. Today the site consists of 20 acres of Chardonnay, 7 acres of Pinot Noir and 13 acres of Cabernet Sauvignon, with small amounts of Merlot and Cabernet Franc.

Going to the bank

Mount Eden's history dates back to the late 1800s via a peripheral connection to vintner Paul Masson, and then later to wine pioneer Martin Ray, who established the original site in 1945 using cuttings from Paul Masson's nearby vineyard for Chardonnay and Pinot Noir.

This iconic winery, however, is not just an enological success or historical fascination—it is a profitable operation, thanks to Jeffrey and his wife Ellie Patterson who have managed Mount Eden since 1983. The couple arrived in 1981 when Jeffrey was hired as assistant winemaker. At that time, the winery was producing 1,500 cases of estate wine and 1,000 cases of Central Coast Chardonnay. Jeffrey was quickly promoted to head winemaker, and he and Ellie became significant shareholders three years later.

Over the years, the Pattersons have run an efficient operation—staying true

to the winery's philosophy of making balanced wines—generating enough money to pay cash for essentials such as grapes and bottles. By 2007, they had built a solid financial portfolio that boasted \$1.1 million in cash, 25% net profit margins and zero debt. All they needed was more cellar space because by then, total production had exceeded 13,000 cases.

Impressed with the Pattersons' management, financial statement and creditworthiness, Silicon Valley Bank (SVB) in December 2007 loaned \$4 million to expand their operation. The Pattersons made an \$800,000 down payment to purchase the original Cinnabar Winery estate, one mile south of Mount Eden Vineyards and 1,650 feet above the town of Saratoga.

Unlike the genesis of Mount Eden Vineyards, the relationship between the Pattersons and SVB is based less on legend and more on pragmatism. Ellie approached SVB in September 2007 after hearing of its wine division, which comprises nearly 10% of the bank's \$9 billion loan portfolio. "Beyond being just a bank, Silicon Valley Bank has a comprehensive wine program and was very interested in our business," recalls Jeffrey.

Given the winery's healthy financial footprint, SVB made the loan easy to obtain. Whereas most banks require quarterly inventory reports, SVB did not.

"They are a well-run business," says Dan Aguilar, the bank's managing director and account manager for Mount Eden. "Because our SVB Wine Division focuses exclusively on premium wineries, they did not need to explain things to us like they would to a generalist bank, or jump through other hoops such as field exams."

Financial performance, management skills and collateral are basic consider-



Jeffrey and wife Ellie Patterson have managed Mount Eden Vineyards since 1983.

Mount Eden Vineyards

Made entirely from grapes of a selected, authentic clone, this wine is grown, fermented and bottled 2000 feet above the floor of the Santa Clara Valley, on a peak of the Chaîne d'Or, in the

Santa Cruz Mountains

CHARDONNAY

2009

ESTATE BOTTLED

13.5% ALCOHOL BY VOLUME

NO. 21921

THIS VINTAGE YIELDED TWENTY THREE THOUSAND AND SIX HUNDRED SEVENTEEN BOTTLES

Domaine Eden

This Pinot Noir is grown on the north facing slope of the Saratoga Gap, sixteen hundred and fifty feet above the floor of the Santa Clara Valley on a peak of the Chaîne d'Or, in the

Santa Cruz Mountains

PINOT NOIR

2011

14.5% ALCOHOL BY VOLUME

NO. 11112

THIS VINTAGE YIELDED FOURTEEN THOUSAND AND FOUR HUNDRED TWENTY BOTTLES

ations taken by any commercial lender. However, SVB's decision to approve the Patterson's loan was based not just on the basics, but on much more: Mount Eden Vineyards' solid, longstanding reputation for making quality wines; 60-plus-year history; and iconic brand reflected the bank's wine industry focus.

"Mount Eden Vineyards is one of the brands that over time has defined the California wine industry for style and quality, and continues to do so," adds Aguilar.

As a brand, Mount Eden Vineyards holds plenty of cachet with SVB's clientele of high-net-worth technology CEOs, private equity executives and venture capitalists.

According to Keith Hanley, senior credit officer and co-division manager of the SVB Premium Wine Division, "The synergy between ultra-premium wine and our technology ecosystem of wealthy customers is high. One part of the SVB value proposition is to build a bridge between the two customer segments by bringing them together via VIP tastings, private-luxury wine gatherings and other exclusive events."

The Mount Eden business plan with respect to the acquisition of the Cinnabar property highly resonated with SVB.



Mount Eden Vineyards' crush pad and 1.83 acres of Merlot and 5.6 acres of Cabernet vineyards above Santa Clara Valley (Peter Martin Ray vineyard under separate ownership).

"The plan allows the company to expand production profitably while maintaining its identity as a Santa Cruz Mountains producer," adds Aguilar.

Valuable assets from the sale included a state-of-the-art production facility, quality vineyards and use permit — according to Aguilar, the latter is valued as a line item in any winery's appraisal.

When considering a potential winery client, SVB reviews more than just the standard lending ratios. "Because the

wine business is complex (including wineries, vineyards, inventory and brands)," explains Hanley, "we look at the attributes, strengths and risks of a situation and then devise a financial package that is right for our client's business model."

The Patterson's financial package includes a \$4 million loan, which the Pattersons hope to repay in nine years. "We do not like debt," insists Ellie, who shared that they have been paying down the loan at a rate of \$0.5 million per

year since making their first payment in January 2008, and expect to pay it off in 2016. The loan was finalized in December, less than four months after Ellie first approached SVB, and the sale was completed later that month.

Expanding "Eden"

The Cinnabar acquisition included a tank room; upstairs living quarters; three 1,000-square-foot cut-and-cover caves; 55 acres, with 12 acres planted in vineyards; and a separate house. The Cinnabar brand and inventory were not included.

Not only did the purchase expand operations, it also served as the catalyst for a second label and vineyards, Domaine Eden, which Ellie conceived shortly after they took occupancy of the property in June 2008. "The name makes sense because it complements the Mount Eden Vineyards brand," she adds.

The initial vineyards of Cinnabar's founder, Tom Mudd, consisted of Mount Eden clonal selections of Chardonnay and Cabernet Sauvignon. Eight more acres were planted in 1991 with Pinot Noir Dijon clones. However, in the late 1990s most of the vines were replanted with other clones and rootstock better suited to the site.

Shortly after the Pattersons took occu-



Domaine Eden hillside vineyard of Cabernet Sauvignon that has been budded over to Pinot Noir.

pancy of the property, Jeffrey replaced six acres of Cabernet Sauvignon that had been planted at the highest elevation with Pinot Noir because the vineyard was north-facing and too cold for growing the variety.

However, two acres of vines were left for the Domaine Eden Santa Cruz

Mountains Cabernet program, a combination of Bordeaux varieties consisting mainly of Cabernet Sauvignon from Mount Eden Vineyards (referred to as the "Estate"), Domaine Eden and three sites in Saratoga and Los Gatos; small amounts of Estate-grown Cabernet Franc and Merlot; and additions of Petit Verdot and

Malbec.

Three acres of Chardonnay and 7 acres of Pinot Noir vines are situated between 1,500 and 1,600 feet in elevation. Domain Eden Chardonnay is 40% Mount Eden estate and 60% Domaine Eden fruit. Domaine Eden Pinot Noir is a blend of different selections and clones grown at the site. Case production of the three wines has increased from 6,310 in 2010 to 8,100 cases in 2012.

Jeffrey has prepped a fallow 3 acres for cultivation. He plans to break ground in 2014, filling the void with 80% Pinot Noir vines over the next five years. He and Ellie expect Domaine Eden Pinot Noir to be their growth engine and plan to increase annual production from just 1,800 to 6,000 or 7,000 cases.

Demand for the Pinot Noir has already exceeded supply. "We keep running out of it and have not had a chance to generate the same presence with consumers as we have with the Domaine Eden Chardonnay," says Cindy Kaster, president of Monterey Bay Wine Company, Mount Eden's broker in California since the early 1980s.

Allocation of the two wines differs greatly. According to Kaster, she received just 200 cases of the 2010 Pinot and 700 cases of the 2010 Chardonnay for the



Domaine Eden Vineyard with new block for Pinot Noir planting.

period from August 2012 to August 2013, selling out of both during that time. Her customers are high-end wine bars and restaurants, upscale wine shops, independent grocers and mom-and-pop stores from San Francisco to San Diego.

As Jeffrey expands the vineyards at Domaine Eden, the operation is primed to handle an upswing in future wine production. Currently, both the Estate and Domaine Eden red wines are fermented and cellared at Domaine Eden,

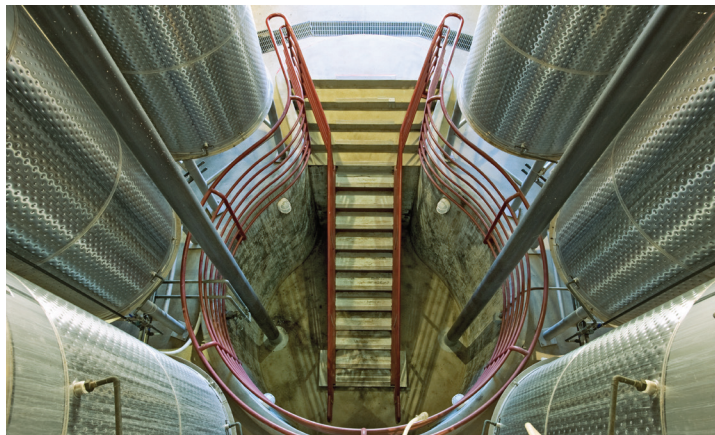
except for one vintage at a time of both the Estate and Domaine Eden Cabernet Sauvignons. These wines are barrel-aged for two years in the original cellar built next to the estate vineyard prior to bottling.

All of the Chardonnays, except for the Mount Eden Vineyards Estate Reserve, are barrel-fermented in the Mount Eden cave, a 4,300 square-foot facility at 1,500 feet in elevation.

Only 260 cases of the Estate Reserve



Eight-spout filler/corker monobloc is adjacent to wine tanks on the crush pad at Mount Eden and is used for average 900 cases per day bottling.



Fourteen red fermentation tanks at Domaine Eden ferment three lots each per vintage.

Chardonnay are made each year. Prior to bottling, Jeffrey separates a select number of barrels for the blend and stirs them, incorporating all of the lees into the wine. The wine is then pumped into a stainless steel tank at Domaine Eden where it is held for another 10 months.

Total case production of all wines in 2012 (including the non-Estate "Wolff" Chardonnay from the Edna Valley) was nearly 18,205, with custom work accounting for 23% of production. However, the number of cases produced varies by vintage and has not necessarily increased

due to the acquisition. Rather, the mix of wines has changed.

For example, more Cabernet Sauvignon is made, and because it spends two years in the original cellar, less of the Wolff Chardonnay is produced. However, the latter has been Mount Eden's bread and butter for some time. Case production reached 5,000 in 2013, up from 4,000 in the early 1990s. Wolff, with its own label design, sells for \$21 at retail. "The wine is very solid, and at that price cannot be beat," notes Ellie.

No tasting room required

Mount Eden Vineyards continues to maintain a positive cash flow due to the Patterson's unwavering approach not just to making balanced wines, but to following a well-developed business model that had already been in place when they first arrived.

"Jeffrey and Ellie came to Mount Eden at a good time and have stayed true to what they are doing," says Kaster. "They have been focused, and because of this consumers know that they will enjoy quality wines every year."

The business model is simple: Promote the brand by having the wines on the “shelf.” The Pattersons do not have a tasting room and thus have no related overhead costs. “Our philosophy is that quality wineries do not need tasting rooms,” explains Ellie, who does admit, however, to trying the concept once at the insistence of the former majority shareholder.

From 2008–2011, the Pattersons were among eight wineries that poured wine at the Press Club in San Francisco, but the program was unsuccessful. “The Press Club thought that people would want to taste wine in downtown San Francisco and talk to a winery rep, but that really was not the case,” Ellie recalls. “Tasting rooms—and wine clubs—are good to have if the wine cannot be found, but we are well-distributed.”

The wines are sold in 37 states outside of California and in eight international markets through smaller, three-tier distributors. “We like having a little bit of wine in a lot of markets rather than a lot of wine in fewer markets,” notes Ellie, an approach that helps increase exposure.

Allocations are done for all markets—California, out-of-state and export. Each sales rep in California receives his/her own allocation number for both Estate and Domaine Eden wines.

All distributors receive an allocation number at the beginning of the release, and that number is tracked carefully. In general, estate wines are restricted to up to three cases per account and are sold to fine-wine shops and restaurants, since they are made to age.

Domaine Eden Chardonnay and Wolff Chardonnay are offered by-the-glass and are not allocated to sales reps; only a total for the state.

The percentage of wholesale revenues in 2012 was 54% (out-of-state); 33% (within California). “We like people to support their stores and restaurants,” explains Ellie. “I prefer that when you go to New York [for example], you can find our wine in many of the best restaurants. The wines do well back east because of that market’s affinity for French wines.”

Export sales were 7%, including sales in Japan, Taiwan, Germany, Norway, Denmark, Hong Kong and the Philippines.

Retail (website and wine club) revenues are just a fraction of overall sales and were 6% in 2012.

Many small wineries like Mount Eden Vineyards have a mix of distribution and direct-to-consumer channels. Focusing mainly on distribution can be challenging due to the consolidation of distributors, notes Aguilar. “However, in Mount

Eden’s case, distribution works because the winery has a quality brand that has proven reliable for more than 30 years and, thus, has strong support from both consumers and distributors.”

Quality is just one factor that keeps Mount Eden profitable—a focused offering is the other. Because the Pattersons make just three varieties under both labels, they sell out of each vintage. “They maximize what they do and are very efficient—they put their money into the land, the grapes and the barrels, so the wines speak for themselves,” adds Kaster.

Art of the second label

Minimalism—the same approach the Pattersons apply across many aspects of the business—was also applied to design the Domaine Eden label, which is similar to the Mount Eden Vineyards label. “The Mount Eden Vineyards label was created in the early 1970s and has always received a lot of attention, so it made sense to create a resemblance between the two brands,” explains Ellie. The labels have a proprietary type font that gives uniqueness to each brand.

Establishing a second label can be problematic depending on how it is executed. “We are cautious when recommending a second label strategy to our clients, but the Patterson’s approach resonated with us,” observes Aguilar. Instead of only sourcing grapes for Domaine Eden, the Pattersons use both declassified fruit from the estate vineyards and grapes from Domaine Eden, an approach that helps strengthen the overall business, adds Aguilar.

In this way, consumers enjoy a Mount Eden Vineyards experience—history, quality and appellation—at a more consumer-friendly price. Domaine Eden Chardonnay retails for \$28, and both the Pinot Noir and Cabernet Sauvignon retail for \$35 compared with the Mount Eden Vineyards wines, which retail for between \$60 and \$70 depending on variety.

“Balancing the success of both brands will be key going forward,” according to Aguilar. “A strategy for a second label has to be well-thought-out because those wines at a lower price point can become easier to sell than the first label. This happens when wineries ramp up production of the sister label using either declassified fruit or grapes sourced elsewhere. Before long, you have a 30,000 case production of the second label and the winery ends up putting more resources than expected into the sales and marketing of that label, which can become problematic

if not managed correctly.”

Cultivating the future

Given the Patterson’s success and focus on staying true to Mount Eden’s principles, it is unlikely that they will waver off course as they increase production of Domaine Eden wines.

Their goal is to focus on promoting the Santa Cruz Mountains appellation with the estate-grown varieties, a wise move from a marketing perspective, explains Jeffrey. “I do not think it is a good idea for us to do other varieties. Wineries in California that are successful start a new brand—and, Domaine Eden is our new brand.”

Given their decision to eventually become appellation-centric—a key element of the Mount Eden Vineyards’ business plan to SVB—the Pattersons are reducing production of the Edna Valley Chardonnay. “But, it is difficult to walk away from such a successful wine that has such a long track record,” notes Ellie.

Meanwhile, the couple has already taken steps toward raising awareness of the Santa Cruz Mountains appellation. In May 2013, they conducted a seminar to 150 sommeliers in Tokyo on the appellation’s uniqueness. The following month, they were one of several wineries in the Santa Cruz Mountains that hosted sommeliers for the *Sommelier Journal’s* 2013 Terroir Experience, and event that features American Viticultural Areas (AVAs).

Under the Patterson’s leadership, Mount Eden Vineyards has played a significant role in establishing the Santa Cruz Mountains as a prime winegrowing and winemaking region. With the addition of Domaine Eden, the Pattersons believe that they now have a substantial presence in the AVA. **PWV**