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WINE INDUSTRY

Big wine companies are snapping up Napa Valley producers and vineyards

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Napa Valley vineyards are being bought by large wine companies wanting to expand their offerings of higher-priced wines.

Increasingly, large wine producers nationally and internationally are relying on acquisitions of Napa Valley wineries, brands and vineyard land to achieve their strategies for growing their high-end wine businesses.

The latest example was Friday’s announcement that Constellation Brands had purchased Schrader Cellars, a Calistoga producer lauded for multiple 100-point cabernets.

The deal includes Schrader’s vineyard contracts, wine inventories and eight cabernet labels. The price was not disclosed.

In early spring, approximately $180 million changed hands for Stagecoach Vineyard, the largest contiguous vineyard in Napa County, making one of the largest wine companies in the world, E. & J. Gallo Winery, one of the largest owners of vineyard land in the county.

Consumer preference for higher-end wines is at the root of these and other industry-shaking deals struck for a slice of the Napa wine business in recent years.

As the average wine drinker has gravitated from less expensive wine toward the premium and luxury segments, large producers like Constellation and Gallo have followed suit. To keep ahead of the demand, they have bought considerable footholds in the Napa wine industry — a trend experts say is bound to continue.

“There’s no question that the demand from consumers is for better wine, not for cheaper wine,” said Rob McMillan, author of Silicon Valley Bank’s annual State of the Wine Industry report. This puts the spotlight on Napa Valley, “the pinnacle of U.S. wine sales.”

“Napa is the top of the market in California wine,” said Carol Collison, partner with financial advisory firm Global Wine Partners in St. Helena, “and there is this strategic preference right now for growth in top-tier wines, and that’s driving interest in Napa.”

That interest led Modesto-headquartered Gallo to purchase the more than 600 planted acres of Stagecoach Vineyard in late March.

“This purchase affirms Gallo’s commitment to compete in the luxury wine segment,” Roger Nabedian of Gallo’s Premium Wine Division said in a statement announcing the purchase. The purchase “provides us the opportunity to continue making and selling luxury wine offerings such as Louis M. Martini, William Hill Estate and Orin Swift.”

The three wineries are all Napa producers. Gallo bought the Orin Swift brand last year, while it has owned William Hill since 2007 and Louis Martini since 2002. The company in 2015 also acquired the Ranch Winery, a large custom-crush facility in St. Helena, and more than 250 acres of planted vineyards in Pope Valley in separate deals.

During the Stagecoach purchase, Santa Rosa firm Zepponi & Company served as the exclusive financial adviser to Dr. Jan Krupp, the vineyard’s former owner. The firm also advised winemaker Dave Phinney during the Orin Swift deal.

Matt Franklin, one of the firm’s founding partners, said that while there has always been interest in the premium side of the wine space, he has seen premiumization “over the last three or four years really take hold.”

Noting that with more consumers buying wine above $10 a bottle and growth increasing even more above the $15 and $20 marks, Franklin pointed out that many large producers “already have brands and labels in that $10-$15, maybe $20 price point.”

However, he said, there aren’t many that have brands of scale at $20 and above. “But they can see the consumer migrating up the pricing ladder.”

Thus, companies have acquired brands, facilities and vineyard assets to grow their higher-end offerings, Franklin said. “All the big players are investing behind this consumer trend of trading up,” he said.

One of the most significant purchases made for Napa wine properties closed roughly a year and a half ago when Australian wine company Treasury Wine Estates bought global drink company Diageo’s U.S. and U.K. wine business for

$600 million, putting Treasury at the helm of Napa Valley stalwarts like Beaulieu Vineyard, Sterling, Acacia, Provenance, Hewitt and others.

Months later, Constellation bought the Napa-based Prisoner Wine Company's brands from Huneeus Vintners for $285 million. The deal bolstered Constellation's Napa footing, which already included Franciscan Estate, Meiomi and the iconic Robert Mondavi winery. The latter traded hands in a blockbuster $1 billion deal in 2004.

As both large producers and mid-sized players like Huneeus Vintners, Vintage Wine Estates and others continue to seek footholds in the local wine industry, the spate of high-profile acquisitions of Napa properties has helped curate a favorable position for sellers.

The current market is one Franklin characterizes "more as a seller's market than a buyer's market." In effect, "it's a strong market" for those interested in selling "and there's plenty of buyers and interest as it pertains to Napa Valley."

In terms of vineyard land, deals like Stagecoach have pulled significant amounts of already rare acreage off the market, drawing attention, Collison said. It's created "actual scarcity of available opportunities and there's perceived scarcity," both serving to improve sellers' positions, he said.

McMillan said acquisitions of Napa vineyard land would continue. Regarding Stagecoach, he said, "They're not the last vineyard owner to sell. There's going to be more."

As vineyards continue to be acquired by producers using the grapes instead of selling them, McMillan predicted the effects would be detrimental to smaller producers who rely on such vineyards to source their fruit.

As a result, he said, more Napa wineries may begin to source grapes from other regions at lower prices and blend them with Napa grapes to lower the overall price. "What that does for quality remains to be seen."

Additionally, as grapes become more expensive and scarce, another effect could be "fewer and fewer small wineries. I think we'll actually see fewer wineries in Napa" in the future, he said.

Speculating about the future landscape of the Napa wine industry as the tide of premiumization persists, Franklin said he expects activity from large companies to continue. "But I also think there's going to be a healthy market for privately owned companies and also for individuals that want to own Napa wineries."

"It's not my perspective that Napa's going to get corporatized over the next five to 10 years," he said.