

ANTICIPATED ACQUISITION BY ADOBE INC. OF FIGMA, INC.

Summary of the CMA's decision on relevant merger situation and substantial lessening of competition

ME/7021/22

Overview of the decision

1. The Competition and Markets Authority (**CMA**) conducted a phase 1 investigation into the anticipated acquisition of Figma, Inc. (**Figma**) by Adobe Inc. (**Adobe**) (the **Merger**). Adobe and Figma are together referred to as the **Parties**.
2. After examining a range of evidence, the CMA believes that the Merger meets the threshold for reference to an in-depth phase 2 investigation, giving rise to a realistic prospect of a substantial lessening of competition (**SLC**) in the supply of: (1) screen design software, and (2) several types of creative design software, namely vector editing, raster editing, video editing, and motion design.

The CMA's assessment

3. Adobe is a significant supplier of creative design software. Creative design software is used to create media assets such as photos, illustrations, videos, and animations. There are different types of creative design software, including vector editing for logos, icons, etc; raster editing for photos and other point-based image editing; video editing involving video asset assembly; and motion design for animations such as motion graphics and visual effects. Adobe is the industry standard in most of its creative design tools including Photoshop, Illustrator, Premiere Pro, and After Effects. Figma offers some basic creative design functionality as part of its screen design software but does not currently offer advanced or standalone creative design tools.
4. Figma is the largest supplier of all-in-one screen design software. Screen design software is used in the design of websites, mobile applications, and digital marketing material (eg website landing pages and marketing emails). Adobe is also active in the supply of screen design software with its Adobe XD product.

5. The CMA has considered two theories of harm in its assessment:
 - (a) loss of competition in the supply of all-in-one screen design software;
and
 - (b) loss of competition in the supply of creative design software.

Theory of Harm 1: loss of competition in the supply of all-in-one screen design software

6. In assessing competition in screen design software, the CMA has assessed the supply of all-in-one screen design software. All-in-one software covers the main stages of the screen design workflow from sketching through to prototyping and hand off. There are some software companies that supply limited- or single-functionality 'point tools', as well as template-based (low/no-code) or prosumer design software. However, the CMA found that these products are not close substitutes to all-in-one software and has considered them as 'out of market constraints'.
7. The CMA found that Figma is the clear market leader in all-in-one screen design software and is several times larger than any other supplier of all-in-one screen design software. Figma primarily competes with Adobe's Adobe XD and competitor Sketch's all-in-one screen design products.
8. The Parties have argued that, absent the Merger, Adobe would not have been a significant competitor to Figma in all-in-one screen design software. The CMA has considered two questions: first, whether, absent the merger, Adobe would have been likely to continue to compete in all-in-one screen design software, and second, if so, whether Adobe would have been a material constraint on Figma.
 - (i) Whether, absent the Merger, Adobe would likely have continued to compete in all-in-one screen design software
9. While the Parties provided evidence that Adobe had significantly reduced investment in its current product (Adobe XD) prior to the merger, the CMA nonetheless found that Adobe XD remains one of only a limited number of close alternatives to Figma and therefore exercises a competitive constraint.
10. Moreover, the CMA's investigation found that Adobe had made substantial investments in the development of a new tool that is described in internal documents as encompassing a range of functionalities including whiteboarding, marketing design, and product design. Adobe had a large team

of engineers working on the development of this tool until it was cancelled shortly before the announcement of the Merger.

11. The Parties argued that Adobe had faced challenges in the development of its new tool, and that Adobe had decided to discontinue this project for reasons unrelated to the Merger. The CMA found, however, that offering an all-in-one screen design software has been a strategic priority for Adobe for a substantial period of time. Adobe had invested significantly in developing and offering an all-in-one screen design software through Adobe XD and its recent development project. Based on an assessment of the evidence in the round, the CMA considers that screen design software was likely to remain a strategic priority for Adobe. Further, Adobe is well-placed to compete in all-in-one screen design given its very significant offerings of adjacent creative design solutions.

(ii) Whether Adobe would have been a material constraint on Figma

12. As noted above, Adobe XD has remained one of only a limited number of close alternatives to Figma. The evidence suggests that Adobe's efforts in product development were motivated, at least in part, by a desire to compete with Figma. Adobe's internal documents regularly reference competing with Figma and compare planned features to those offered by Figma. Finally, Figma perceived Adobe as a competitive threat to its position in screen design. The CMA considers, therefore, that the new tool Adobe was developing would have been a competitive threat to Figma, and that Adobe's investment in developing this tool was itself a competitive threat to Figma.
13. The CMA therefore considers that Adobe and Figma are close competitors in all-in-one screen design, particularly in competition to improve their offerings, as well as with respect to their current offerings. This competition would be lost as a result of the Merger, and the CMA found that there would be limited remaining competitive constraints imposed by rival screen design software providers.

Theory of Harm 2: Loss of competition in the supply of creative design software

14. Adobe is the industry standard in most of its creative design tools including Photoshop, Illustrator, Premiere Pro, and After Effects. Both Photoshop and Illustrator are leading products in their respective segments with very high market shares. Adobe also has significant shares in video editing and motion design with its Premiere Pro and After Effects products.

15. The CMA has considered whether the merger could affect competition in the supply of vector editing, raster editing, video editing, and motion design software.
16. Figma does not currently offer standalone creative design software but offers some creative design functionality in its screen design product, in particular vector editing capabilities. The CMA found, however, that Figma has regularly explored the possibility of expanding its creative design offering either through development or acquisition.
17. At the same time, the CMA found that Adobe considered Figma and its possible expansion to be a significant potential threat to its creative design software business, and that Adobe has a strong incentive to react to Figma by driving innovation in its own products, including by developing its new screen design product to combine all-in-one screen design with creative design capabilities.
18. As a result, the CMA found that the Merger would remove a significant competitive threat to Adobe from the market and result in a substantial lessening of competition.
19. In light of the above findings in screen design and creative design software, the CMA therefore believes that the Merger would result in significant competitive concerns that give rise to a realistic prospect of an SLC in the supply of all-in-one screen design software and creative design software (specifically, vector editing software, raster editing software, video editing software, and motion design software).
20. As a result of these initial concerns found in its phase 1 investigation, the CMA considers that a further in-depth phase 2 review of the Merger would be warranted unless the Parties offer undertakings to resolve the concerns identified in the CMA's phase 1 investigation. The CMA can accept such undertakings under section 73 of the Enterprise Act 2002 (the **Act**). Adobe and Figma have until **7 July 2023** to offer an undertaking that might be acceptable to the CMA. If no such undertaking is offered, then the CMA will refer the Merger for an in-depth phase 2 investigation pursuant to sections 33(1) and 34ZA(2) of the Act. This would enable the CMA to investigate these concerns in more detail before reaching a final decision on whether or not the Merger gives rise to an SLC.