ANTICIPATED ACQUISITION BY ADOBE INC. OF FIGMA, INC.

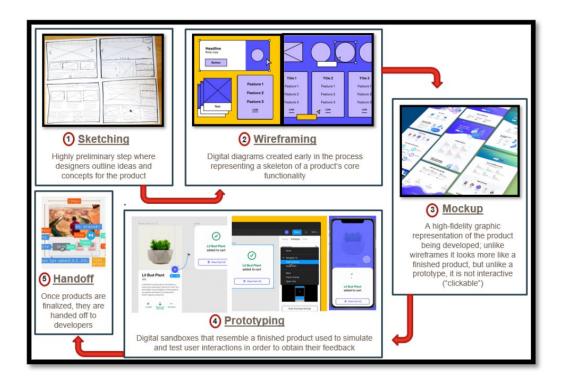# Summary of provisional findings

Notified: 28 November 2023

What we have provisionally found

1. The Competition and Markets Authority (**CMA**) has provisionally found that the anticipated acquisition (the **Merger**) by Adobe Inc. (**Adobe**) of Figma, Inc. (**Figma**; and, together with Adobe, the **Parties**), to create the **Merged Entity**, amounts to a relevant merger situation that may be expected to result in a substantial lessening of competition (**SLC**) in each of the following markets:

    (a) the global market for all-in-one product design software for professional users;

    (b) the global market for vector editing software; and

    (c) the global market for raster editing software.

2. The CMA has also provisionally found that the Merger may not be expected to result in an SLC in each of the following markets:

    (a) the global market for video editing software; and

    (b) the global market for motion design software.

All-in-one product design software

3. Product design is the process of designing a digital product, such as an app or website that involves some degree of user interaction. Examples of apps and websites include supermarket shopping, food delivery, travel booking, and online banking.

4. Product design software is a dedicated software that allows the product designer to design these apps and websites and hand them over to a software developer so that they can be created. Product design has five main stages: sketching, wireframing, mock-up, prototyping, and handoff.

Figure 1: The product design process

Source: The Parties' Final Merger Notice (**FMN**).

5.   Product design software is a market that was fuelled by the advent of the digital economy. It is a rapidly growing and dynamic market involving continuous product development and innovation. It is a market where the competitive offerings of the main players are continuously shifting. Competition takes place both on current products (eg on price, quality, frequency of updates, fixes of technical problems, etc) and also on the development of new products and features.

6.   The Parties are two of the main providers of product design software. Figma has a web-based software product called Figma Design. Figma Design is the leading product design software accounting for over 80% of the market by revenue. Adobe has Adobe XD, a desktop-based product with a 5-10% share. Together the Parties have over 90% of the market. The remaining competitors have significantly lower shares of 0-5% each and less than 10% in aggregate. Figma Design, Adobe XD, and Sketch are the three main products in this market. Sketch was developed by Dutch company Sketch BV and was the first dedicated product design software on the market. Sketch is only available for Mac operating systems (macOS).

7.   Figma Design and Adobe XD are both all-in-one product design tools covering all five main stages of product design. There are other types of software that only cover one or more, but not all, of these five stages. These are called point tools. There are also certain narrowly focussed tools that create the coding for applications or websites directly, called no-code / low code tools.

Moreover, whilst there are many different types of users, the Parties' product design software tools are both aimed at professionals. There are other types of software that are aimed at non-professionals, also called 'prosumers' or 'hobbyists'. We do not consider that any of these tools belong in the same market as the Parties' products (ie the all-in-one product design market for professional users). Accordingly, we have considered the constraint by these providers in our assessment as an out-of-market constraint, where relevant (and have also considered whether the answer to the statutory questions would be any different if these tools were to be considered as in-market constraints).

8. Figma Design and Adobe XD are both tools primarily created for product design. However, our investigation has found that sometimes they are also used for marketing design purposes and that some professional designers work on both product and marketing design (using the same software). To the extent relevant, we have considered marketing design in our assessment.

9. Product design software is an area that is characterised by product development and innovation, with existing products generally updated, and new products or features developed and/or launched, on a periodic basis. In this context, prior to the Merger, Adobe had been developing a next generation, web-based product design software, which was conceived as a significant improvement on Adobe XD, called Project Spice. In October 2021 and February 2022, Adobe reduced its engineering resourcing of Adobe XD and shifted these resources to Project Spice in order to accelerate its development.

10. Project Spice was intended to be a web-based tool with product design capabilities that would compete more strongly with Figma in product design by allowing for real-time collaboration between professional users and including functionalities from Adobe's flagship vector editing and raster editing software, Illustrator and Photoshop respectively. Project Spice was planned to be developed in phases: starting with whiteboarding, followed by marketing design, and subsequently product design.

11. The Parties submitted that Adobe XD was placed in 'maintenance mode' in February 2022. They also submitted that Project Spice was not the successor of Adobe XD and was not going to become a product design tool, and that Project Spice was cancelled for reasons unrelated to the Merger. Finally, the Parties submitted that Adobe has effectively exited the market for product design software and does not have the ability and incentive to re-enter organically. In this context, the Parties have not, however, formally made an argument or presented evidence that Adobe is an exiting firm. In particular, Adobe has not submitted compelling evidence to demonstrate that – despite being a long-standing competitor in product design software (including

through its development of new product offerings) – it would have exited the market absent the Merger.

12.   Whilst Adobe had significantly reduced the resources allocated to Adobe XD by the time the Merger was announced, the evidence shows that Adobe XD remained one of the two main competitors to Figma Design and would in the absence of the Merger be expected to continue to compete for a few years at least while customers were being moved to Project Spice over time.

13.   Internal document evidence shows that before the Merger was announced Figma considered Adobe XD as one of its closest competitors and was consistently aware of the threat it posed, even after Adobe reduced its resourcing on Adobe XD. Similarly, while third parties generally view Adobe XD as a weaker product than Figma Design, Adobe XD is generally considered to be an adequate alternative and often considered the closest competitor to Figma Design.

14.   In our view, absent the Merger, Adobe planned to move customers from its existing product design tool, Adobe XD, to Project Spice over time, as the latter developed more features. We consider that in its development of Project Spice, Adobe would also have continued to benefit from its ability to offer a product design tool as part of a bundle through its Creative Cloud suite of products.

15.   Adobe's internal documents show that product design remained part of Adobe's plan for Project Spice until at least the end of July 2022. In late July 2022, one week after Adobe and Figma signed an exclusive letter of intent regarding the Merger, Adobe reduced the scope of Project Spice, despite it having been in development for over two years. On 9 September 2022, six days before the announcement of the Merger, Adobe cancelled Project Spice. Our provisional view, given the timing of the cancellation and the evidence on the decision-making process, is that the decision to cancel Project Spice was a consequence of the Merger.

16.   We therefore consider that, absent the Merger, Adobe would have continued to compete including through its innovation efforts in all-in-one product design software, whether by way of Adobe XD, Project Spice, or in other organic or inorganic ways, and would have remained a close competitor to Figma. We consider that Adobe's efforts in product design over the years and months leading up to the Merger, including through its continued provision of Adobe XD and its development of Project Spice, provide clear contemporaneous evidence that Adobe had the ability and incentive to continue its efforts in product design.

17.   Post-Merger, our provisional view is that the Merged Entity would face limited in-market competitive constraints, including taking into account the product

development plans of competitors. Other than Figma Design and Adobe XD, Sketch has the strongest product in the market for all-in-one product design software for professional users. Our provisional view is that while Sketch would provide a moderate constraint on the Merged Entity, other all-in-one product design tools have a much smaller market presence and would provide a weak post-Merger constraint.

18.   Our provisional view is that out-of-market constraints are also weak (and, therefore, it is not material to our assessment whether these constraints are considered within or outside the market). Point tools would provide a weak post-Merger constraint on the Merged Entity's all-in-one product design tools and are generally used alongside all-in-one product design tools. The evidence indicates that Framer, which used to focus on an all-in-one product design tool but has since shifted focus to its no-code/low-code tool, would also provide a weak post-Merger constraint. The evidence further indicates that other no-code/low-code providers and prosumer tools would provide no meaningful post-Merger constraint. Competitors generally thought that barriers to entry and expansion were high.

19.   Our provisional conclusion is therefore that the Merger would remove competition between close competitors and an important competitive constraint on Figma, in a market in which Figma is already the strongest player by far and there are few other competitive constraints. This loss of competition would reduce choice in relation to the Parties' current offerings on the market and could result in higher prices or worse quality (or both) for customers and would also reduce the incentives of the Parties to improve quality, innovate and develop their products.

Vector and raster editing software

20.   We have also provisionally found that the Merger is likely to raise competition concerns as a result of the loss of dynamic competition between the Parties in each of the global markets for vector editing software and raster editing software.

21.   Vector editing is the digital process of creating logos, icons, brand graphics, marketing materials, and illustrations. Raster editing is the process of image editing and compositing (eg adjusting or retouching) photos. The vector and raster editing software markets are dynamic markets involving continuous product development and innovation. Competition takes place both between current products (eg on price, quality, and fixes of technical problems), and on product development and innovation (for new and existing products). These are also two markets where there is an entrenched position by the leading player (Adobe) that has persisted over many years.

22.   Adobe's Illustrator and Photoshop products have extensive functionalities and are market leaders with shares of over 70% and 80% respectively. The next biggest competitor has a share of supply under 10% in vector editing and 5% in raster editing. All other competitors are much smaller.

23.   Figma Design currently includes limited vector editing functionality and very limited raster editing functionality within Figma Design, although third-party extensions (such as plugins) provide some further functionality.

24.   The markets for vector and raster editing software on the one hand and product design software on the other are adjacent, in that they have material customer overlaps, and some customers use vector and raster editing software and product design software as part of the same workflow. There are also adjacencies with other creative design products, such as motion design and video editing, although these appear to be weaker.

25.   We consider that Adobe's and Figma's platforms are characterised by network effects. These network effects cause the value of the respective platforms to increase with the number of users. These strengthen Adobe's position in vector and raster editing software. They also strengthen Figma's position in product design software. Network effects operate across markets. For example, the value of using Figma's vector and raster editing offerings is greater the more Figma is used for product design, and vice-versa. Therefore the strength of the Parties' positions in each of these markets is influenced by their strengths in the others, implying that the Parties exert multi-market competitive pressure on each other across vector editing, raster editing, and product design.

26.   Adobe derives significant competitive advantages from its multi-market presence and network effects. However, we consider that disruptive technological trends may be threatening Adobe's primarily desktop-based ecosystem of products, with competition from web-based platforms appearing particularly threatening. Adobe's ecosystem also faces some threats from mobile-first players, and over the longer term, may face a threat from AI.

27.   We have assessed the threat Figma poses to Adobe's customer base and the extent to which this threat influenced Adobe's product development. We considered the extent of the customer adjacency between Figma Design and both Illustrator and Photoshop, as well as internal documents and third-party evidence.

28.   In relation to the customer adjacency, we assessed the proportion of Illustrator and Photoshop's customer base which overlaps with Figma Design (as these are adjacent markets). In our view, there is a material customer overlap. We consider that the users at risk represent a substantial source of revenue to Adobe, and more users and revenue could be at risk in future were

Figma to develop vector and raster editing functionality extending beyond product design and related use cases.

29.   In our view, the document evidence shows that Adobe perceived Figma to threaten its core markets for vector and raster editing software, and its flagship apps Illustrator and Photoshop in particular. We note particularly that Adobe undertook detailed analysis of the threat posed by Figma and concluded that Figma posed a risk. In our view, other internal documents consistently show concerns by Adobe management over the threat from Figma in relation to professional users until August 2022, a few weeks before the Merger was announced (on 15 September 2022). Third-party evidence also suggests that Figma Design is already an alternative for some customers to Illustrator, and – to a lesser extent – Photoshop, at least for certain use cases related to product design.

30.   The evidence also shows that Adobe undertook actions to mitigate the threat from Figma. Adobe's competitive response to Figma included product development which sought to defend Adobe's wider Creative Cloud suite. This specifically included the development of web versions of Illustrator and Photoshop, but also the prioritisation of certain features in the desktop versions. Furthermore, Project Spice envisaged the inclusion of both vector and raster editing functionality within a web-based app also providing product design functionality for professional users. Both the wider Project Spice, and the inclusion of vector and raster editing functionality in it specifically appear to have been a direct response to the threat from Figma.

31.   We have also assessed the extent to which Figma has the ability and incentive to develop its vector and raster editing functionality.

32.   In relation to product development to date, we consider the evidence shows that Figma's functionality in both vector and raster editing has improved incrementally over time. Figma users can also access vector functionality developed through third-party extensions, and new vector and raster editing extensions have recently been emerging. Figma has also taken steps in relation to the monetisation of extensions which we consider makes the development of extensions more attractive to third parties. In relation to vector editing functionality in particular, Figma also has an engineering team in place which could be built out over time.

33.   We have examined Figma's discussions, plans, and steps taken for developing its vector and raster editing functionalities. We also considered other factors relating to its ability and incentive to develop these functionalities, particularly technical challenges, resource constraints and strategic fit.

34. We consider that the evidence we have obtained shows that the development of vector and raster editing functionality was under sustained and serious consideration by senior Figma executives at least until June 2022. The development of vector and raster editing functionality consistently received more serious consideration than other projects. The development of vector and raster editing functionality was part of board documents from 2018 onwards.

35. Figma also had made outline plans to develop vector and raster editing functionality organically, had considered a number of acquisitions in these areas and reached an advanced stage in relation to one raster editing opportunity.

36. We have also assessed the challenges that Figma would need to overcome in order to develop its functionality in vector and raster editing. We consider that the Parties identified some credible technical challenges that Figma would face. The evidence shows that the challenges were less severe for vector editing, but in both cases they were surmountable. By drawing on a combination of investment and acquisitions, we consider that Figma could have addressed the challenges to develop vector and raster functionality in the near- to medium-term. Further, we consider that Figma was particularly well placed to do so for vector editing, and relatively well placed in raster editing compared to other software providers (taking into account its business capabilities and resources).

37. We have also considered evidence in relation to the strategic fit of vector and raster editing functionality with Figma's other products, particularly Figma Design. We considered evidence on market adjacency, the size of the opportunity, the impact of product development on Figma's other products, and views from market participants on strategic fit.

38. In relation to the level of market adjacency, we consider that a material proportion of Figma's user base undertakes vector and raster editing and that Figma considers these tools to be part of the same product design workflow. Tapping into this existing customer base would reduce the cost to Figma of acquiring customers in vector and raster editing, thus contributing to its incentive to develop this functionality. The size of the opportunity for Figma in vector and raster editing appears overall large.

39. Further, the strength of Figma's position in product design is influenced by the strength of its vector and raster editing functionality, which we consider would increasingly be needed to compete for new customers against Adobe. This gives Figma a stronger incentive to develop its presence in vector and raster editing, above what it would already have absent the multi-market competitive pressure the Parties exert on each other as discussed above in paragraph 25.

40.   On this basis, we consider that, absent the Merger, Figma represents a particularly credible dynamic competitor to Adobe in vector and raster editing software for professional users, and this threat is already strong for product design and related digital use cases. We have considered other competitors' strengths in vector and raster editing software in the context of Adobe's very strong market positions in both of these markets.

41.   The Parties identified more than 45 competitors in vector editing and more than 65 in raster editing. We undertook an assessment to identify the most relevant competitors in each of vector and raster editing software. We considered the extent to which these competitors are referred to in the Parties' internal documents and in third-party evidence. We consider that very few competitors in vector editing software (Affinity and Corel Draw) and raster editing software (Affinity) provide any meaningful competitive constraint on Adobe's product development for professional users, and that constraint is weak to moderate at most. This is particularly true for product design and related digital use cases.

42.   We also considered whether the threat of entry and expansion from other sources (such as prosumer tools, mobile products, and AI) may provide a competitive constraint on Adobe's product development, and we found that any such constraint is weak at most. Further, there are significant barriers to entry and expansion in relation to both vector and raster editing software, and neither entry nor expansion would be timely, likely nor sufficient to pose a material constraint on the Merged Entity.

43.   On the basis of the above, our provisional conclusion is that the Merger would remove competition between close competitors in product development and innovation in vector and raster editing software, reducing the incentive of the Parties to improve quality, innovate, and develop their products. In particular, the Merger would eliminate an important dynamic competitive threat to Adobe's Illustrator and Photoshop in markets where Adobe has had an entrenched leadership position for decades. Figma has the ability and incentive to develop vector and raster editing functionality and Adobe was concerned about this, saw Figma as a threat, and took actions to mitigate it. There are very few competitors to Adobe in either vector or raster editing software and barriers to entry and expansion are significant.

Video editing and motion design software

44.   Video editing software is used for video assembling (eg cutting, arranging, and enhancing videos). Motion design software is used for creating motion graphics.

45. The video editing and motion design software markets are similarly dynamic markets, involving continuous product development and innovation. In both these markets Adobe has a leading position with Premiere Pro for video editing and After Effects in motion design. In these markets there are other moderate to strong competitors (such as Apple and Blackmagic for video editing, and Apple and Blender for motion design).

46. Our provisional conclusion is that the Merger is not likely to give rise to competition concerns in these markets. The evidence shows that Adobe did not consider Figma a material threat and that Adobe's product development in video editing and motion design software was not materially influenced by Figma. We also consider that Figma has, in the round, only a fairly weak ability and incentive to develop video editing and motion design functionalities over the near- to medium-term. Finally, there would remain moderate to strong competitors post-Merger.

Our provisional conclusions

47. We have provisionally concluded that the anticipated acquisition by Adobe of Figma would result in the creation of a relevant merger situation.

48. We have provisionally concluded that the Merger may be expected to result in an SLC in the global market for all-in-one product design software for professional users.

49. We have provisionally concluded that the Merger may be expected to result in an SLC in each of:

    (a) the global market for vector editing software; and

    (b) the global market for raster editing software.

50. Finally, we have provisionally concluded that the Merger may not be expected to result in an SLC in:

    (a) the global market for video editing software; or

    (b) the global market for motion design software.