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LEGAL ANALYSIS

TMT

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ADOBE/FIGMA: BILLION DOLLAR BLOCKAGE

How three regulators killed the biggest design software deal in history



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~\$20bn

DEAL VALUE

\$1bn

REVERSE TERMINATION FEE

3

JURISDICTIONS

15 Months

REVIEW PERIOD

Dec 2023

TERMINATED

Deal Overview

Acquirer: Adobe Inc

Target: Figma

Announcement Date: September 2022

Deal Value: \$20 billion approximately (\$10 billion cash + \$10 billion in Adobe stock, plus retention RSUs)

Deal Termination Date: 18 December 2023

Acquirer Advisors: Allen & Company LLC (Financial), Wachtell, Lipton, Rosen & Katz (Legal, Lead M&A), Skadden, Arps, Slate, Meagher & Flom LLP (Legal, Global Antitrust/FDI), Freshfields Bruckhaus Deringer (Legal, UK/EU Regulatory)

Target Advisors: Qatalyst Partners LP (Financial), Fenwick & West LLP (Legal, Lead Counsel), Cleary Gottlieb Steen & Hamilton LLP (Legal, EU Regulatory), Slaughter and May (Legal, UK Regulatory)

Key Jurisdictions: UK (CMA), EU (European Commission), US (DOJ)

Executive Summary

Adobe's proposed acquisition of Figma was motivated by the former's desire to leapfrog into a collaborative, browser-based design system, an area where Adobe's diverse media tools were falling behind. By September 2022, Figma had become the most dominant force in cloud-based, collaborative design software, accounting for over 80% of the all-in-one product design software market by revenue.

The deal would require regulatory clearances from three jurisdictions: the US Department of Justice (DOJ), the UK Competition and Markets Authority (CMA), and the European Commission. As such, competition clearance risk was high, and ultimately the deal's blockage reflects regulator concern over choice and innovation in the design software sector.

The parties mutually terminated the deal on 18 December 2023, with "no clear path" to regulatory clearance. Strikingly, Adobe was required to pay Figma \$1 billion in cash under a reverse termination fee, and Figma went public at \$33 per share in July 2025 with an initial valuation of around \$19 billion, which briefly surged to just under \$68 billion on debut.

Regulatory Roadmap

The Adobe-Figma acquisition triggered merger control review across three major jurisdictions.

In the UK, the CMA had jurisdiction in the share of supply test, given Figma's dominant position in product design software.

In the US, the transaction exceeded the Hart-Scott-Rodino Act's statutory value thresholds, making an HSR filing mandatory and subjecting the deal to DOJ review.

The EU presented a more unusual jurisdictional picture, as the deal did not meet the turnover thresholds under the EU Merger Regulation, but the European Commission assumed jurisdiction following Article 22 referral requests from Austria and Germany.

All three regulators assessed the deal as posing a high risk to competition, particularly given Adobe's strong market share in creative software and Figma's rapid growth as a potential challenger across adjacent markets.

Critical Path Analysis

The CMA's Phase 2 investigation was the gating regulatory item. Key observations include:

CMA timeline: Following a Phase 1 review, the CMA referred the deal to an in-depth Phase 2 investigation in July 2023. Phase 2 investigations carry a statutory deadline of 24 weeks, extendable to 32 weeks. In practice, the CMA's provisional findings and remedies process pushed the review well beyond six months.

Parallel processing: The DOJ's HSR review and the European Commission's Article 22 investigation proceeded in parallel with the CMA's Phase 2 process. Cross-jurisdictional coordination between the three regulators was a notable feature of this case.

Pre-notification: Meaningful pre-filing engagement with the CMA is standard for transactions of this scale. However, the CMA's early signalling of concerns, particularly around innovation theories of harm and potential competition in adjacent markets, indicated that clearance would be difficult to achieve without significant structural

A dead end: The CMA's provisional remedies notice offered only two options: full prohibition or a divestiture amounting to prohibition. Adobe rejected both, and the parties concluded there was no clear path to approval, leading to mutual termination in December 2023.

Competition Analysis

Horizontal Overlaps

The horizontal overlap between Adobe and Figma is significant in product design software and raises potential competition concerns in two adjacent creative software markets.

The strategic rationale here heightened the concerns of regulators. Adobe sought to acquire the dominant platform in a market where its own product was already failing. Regulators viewed this as evidence that the deal was motivated by neutralising a competitive threat.

Vertical Relationships

Regulators identified a cross-market ecosystem dimension that functioned similarly to vertical concerns. Both platforms operated across product markets: Figma's dominance in product design gave it a uniquely credible pathway into image editing and illustration, as its existing user base would provide immediate distribution for any new tool. The merger would eliminate this cross-market competitive dynamic, cementing Adobe's position in creative software markets where it currently faces limited competitive pressure.

Theories of Harm

Competition authorities analysed three theories of harm, each of which presented a basis for intervention:

1. Horizontal elimination in product design software: The merger combines the dominant player (Figma, >80% market share) with its closest historical competitor (Adobe XD, 5-10%). Although Adobe had reduced investment in XD prior to the deal, regulators found that without the merger, Adobe would have continued to exert competitive pressure on Figma through renewed investment or new product development (Project Spice). The post-transaction entity would face limited competitive constraint.

2. Potential competition in image editing and illustration: Regulators applied potential competition doctrine to two markets where Adobe holds a near-monopoly position (Photoshop in raster editing, Illustrator in vector editing). Although Figma does not currently offer standalone products in either segment, the CMA and EC found that Figma had both the ability and incentive to expand into these adjacent markets. The merger would eliminate Figma as a prospective entrant and remove a competitive threat that had been driving Adobe's own innovation, including the development of web-based versions of Photoshop and Illustrator.

3. Ecosystem innovation harm: Regulators assessed the merger through an ecosystem lens. Adobe's creative software suite and Figma's collaborative design platform represent ecosystems linked by network effects and overlapping user

bases. The combination would consolidate control over the professional design software ecosystem, reducing incentives to innovate across all three product markets and raising barriers to entry for potential challengers who would now face an integrated incumbent spanning product design, image editing, and illustration.

Regulatory Analysis by Jurisdiction

UK CMA

The CMA claimed jurisdiction under the share of supply test, finding that the parties' combined share in product design software exceeded 25% in the UK. The regime is voluntary, as no mandatory filing obligation exists, but the CMA exercised its power to initiate a review of its own accord in May 2023.

Following a Phase 1 investigation that identified competition concerns, the CMA referred the deal to an in-depth Phase 2 investigation in July 2023. The Phase 2 inquiry carried a statutory deadline of 24 weeks, extendable to 32 weeks. The CMA issued provisional findings in November 2023, concluding the merger would result in a substantial lessening of competition across all three identified product markets.

The CMA was the most aggressive of the three regulators and ultimately the primary driver of the deal's collapse.

US DOJ

The transaction exceeded the Hart-Scott-Rodino Act's statutory value thresholds, triggering a mandatory HSR filing. The DOJ issued a Second Request for information, focused on Figma's leading position in interactive product design tools. Reports indicated that the DOJ was preparing to file a federal antitrust lawsuit to block the deal, mirroring the competitive concerns raised by UK and EU regulators.

However, the DOJ never formally filed suit, as the parties terminated the deal before litigation commenced. The DOJ issued a statement following termination affirming its commitment to protecting competition in technology markets.

EU European Commission

The deal did not meet the turnover thresholds for mandatory review under the EU Merger Regulation. However, the EC claimed jurisdiction following Article 22 referral requests from Austria and Germany, subsequently joined by multiple other member states. This was a notable exercise of the EC's expanded approach to Article 22, which post-2021 guidance encourages member states to refer transactions that may affect competition even where national thresholds are not met.

The EC opened a Phase 2 investigation in August 2023 and issued a Statement of Objections, provisionally finding that the merger would significantly reduce competition in interactive product design software and digital asset creation tools. The EC's concerns substantially mirrored that of the CMAs. Following the deal's termination, Executive Vice-President Vestager commented that the merger would have eliminated all current and prevented all future competition between the parties.

Remedies Analysis

The CMA's provisional remedies notice presented only two options: full prohibition of the merger, or divestiture of Figma's core design business. The latter would have also effectively amounted to prohibition, since Figma Design was the very asset Adobe sought to acquire. No behavioural remedies or partial structural remedies were considered capable of addressing the identified harms. Adobe formally rejected both proposed remedies.

The EC's investigation had not progressed to a formal remedies stage before

termination, but the trajectory of its Statement of Objections indicated a similar outcome. The breadth of the competition concerns, spanning three product markets, left no realistic scope for a remedy package that would preserve the commercial logic of the deal while satisfying regulators.

The parties concluded that there was no clear path to clearance in either jurisdiction, and mutually terminated the merger agreement on 18 December 2023. Adobe paid Figma a \$1 billion reverse termination fee in cash, as stipulated in the original merger agreement.

The regulatory process ran for approximately 15 months from announcement to termination. The CMA's Phase 2 process was the critical path, with its provisional findings and remedies notice in late November 2023 effectively triggering the decision to abandon the deal within weeks.

Our Key Takeaways

The deal represents one of the most prominent applications of potential competition theory in technology merger control. Regulators intervened based on the elimination of future competition in adjacent markets.

The CMA's ecosystem-level analysis assessed cross-market network effects and innovation dynamics. This signals a broadening of merger assessment frameworks in digital markets.

Cross-jurisdictional coordination between the DOJ, CMA, and EC produced aligned theories of harm, demonstrating increasing convergence of merger enforcement in the technology sector.

The CMA's remedies framework offered no viable path to clearance, as the only options were full prohibition or divestiture of the core asset Adobe sought to acquire. This left no scope for remedies that preserved the deal's commercial logic.

The deal was abandoned rather than litigated, meaning it establishes no binding legal precedent. The viability of potential competition doctrine in contested merger proceedings remains untested.

Figma's subsequent IPO in July 2025, valuing the company at up to \$68 billion, serves as evidence that blocking the deal preserved competition. This enabled independent value creation, and Figma's valuation soon far exceeded the original \$20 billion acquisition price.

The case serves as a cautionary tale for technology acquisitions. Transactions involving platforms in overlapping digital markets will face intense multi-jurisdictional scrutiny, particularly where the target is a future competitor to the acquirer's own products.

Editors: Pericles Cross, Jonathan Smith

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