

# Adobe's acquisition of Figma at a record valuation for a private software company

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*"Adobe's greatness has been rooted in our ability to create new categories and deliver cutting-edge technologies through organic innovation and inorganic acquisitions - the combination of Adobe and Figma is transformational and will accelerate our vision for collaborative creativity."* – Shantanu Narayen, CEO of Adobe

## Deal Overview

- **Acquirer:** Adobe Inc. (NASDAQ: ADBE)
- **Target:** Figma Inc.
- **Industry:** Enterprise software
- **Transaction amount:** \$20B (subject to changes until completion)
- **Date of announcement:** 15<sup>th</sup> September 2022
- **Advisor to Adobe Inc.:** Allen & Co. LLC
- **Advisor to Figma Inc.:** Qatalyst Partners LP

## Deal Summary

Software giant Adobe Inc. announced plans last year to acquire UI/UX software provider Figma Inc. in a \$20B cash-and-share deal expected to be completed in 2023, thus acquiring a key competitor in the space

of design software platforms. The shareholders of Figma, which is private, will receive \$22.48 per share in cash and a further 0.045 shares of Adobe for each issued and outstanding share, thus totaling roughly \$10B in cash and a further \$10B in Adobe shares (if calculated with the pre-announcement value of \$15.05 as of 09/12/22). The implied \$20B valuation makes it the largest buyout of a private software company to date.

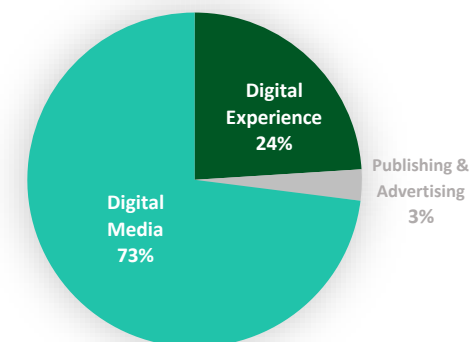
The core rationale of the deal is obtaining a dominant position in the collaborative-design and prototyping software market, with Figma currently sitting at over 32% market share while Adobe services a further 39% of the market with "Adobe XD". The acquisition thus allows Adobe to further expand the attractiveness of its ecosystem by encompassing another popular service. Simultaneously, Adobe will eliminate a growing threat to its growth and profitability as Figma could have also become a competitor to its other products since it was expanding into other subsectors within enterprise software. The strong growth of Figma may translate to higher sales growth within the combined software giant as well.

## Company overview – Adobe. Inc.

Adobe Inc., founded in 1982 and headquartered in San Jose, California, has historically developed a wide range of software products. Its flagship products include Adobe Photoshop, and Adobe Illustrator, which are the industry standard for photo-editing and vector graphic creation with graphic designers. A further product is the Portable Document Format (PDF), a globally omnipresent format commonly used to present and exchange documents regardless of software, hardware, or operating system used, as well as related services such as Adobe Acrobat Reader. After bundling its products under the name Adobe Creative Suite, the

company followed the SaaS trend with the subscription service Adobe Creative Cloud in 2013.

## Revenue Breakdown by Business Unit



Source: Statista – own illustration

Adobe has a history of inorganic growth and has bought key competitors in the past, such as Macromedia in 2005 for \$3.4B, its second largest acquisition to date. Nonetheless, Adobe has the financial strength to execute the Figma deal and summon the necessary \$10B in cash since earnings were only slightly impacted by the current macroeconomic turmoil. In the financial year of 2021, Adobe reported revenues of \$15.79B and a net income of \$4.82B, boasting 13% YoY growth, resulting in a 31% net profit margin. However, the matter of whether the future earnings potential of Figma warrants significant share dilution and the cash expense, which could decrease liquidity in a time of uncertainty, is controversial. This depends heavily on whether Figma (and Adobe) will continue to grow revenues without obstruction by macroeconomic conditions.

### Company overview – Figma Inc.

Founded in 2012 and headquartered in San Francisco, Figma Inc. is a software company that was built around a single product, a cloud-based collaborative design application named after the company itself. Only in April 2021 did the company launch its second product, a digital whiteboard named FigJam. This has helped shift away from solely catering to the design sector, with 2/3 of Figma's user base identifying as working in non-designer roles. The expansion of the company into other software applications was thus seen as probable up until the acquisition announcement. Figma's customers include BMW, Zoom, and Airbnb among others.

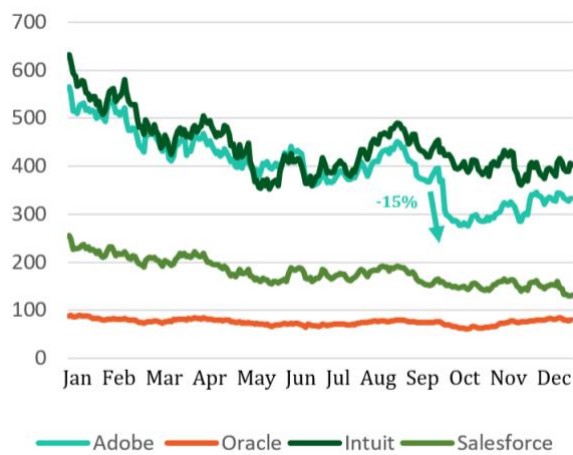
Figma's founders displayed an unwillingness to sell the company, explicitly stating the company's goal was "to be Figma, not Adobe" in a Tweet last year. Clearly, they believed in the company's future. The three largest outside shareholders resulting from these funding rounds, Index Ventures, Greylock Partners, and Kleiner Perkins, also all hold stakes worth at least \$2B each if the deal is completed.

### Industry overview – Enterprise software

The software industry includes companies that develop, maintain, and publish software and can be divided by revenue model into license-based and cloud-based businesses. Key characteristics of the sector include extraordinarily high R&D costs and decreasing marginal costs. A subsector of the software sector, enterprise software firms license software products or platforms to other companies for internal processes or as tools for projects such as Figma for web design. In 2021, enterprise software companies' revenues totaled \$430B and are expected to grow at a CAGR of 11.7% to reach \$1.16T by 2030.

The market leader in the enterprise software industry is Microsoft, with almost \$200B in sales in 2022. Other key competitors to Adobe include Oracle, Intuit, and Salesforce, though none match Microsoft in size and market share. Adobe's stock has dropped substantially more than its peers' (around 50% as of the 8th of November 2022), with an obvious downturn visible following the announcement to acquire Figma on September 15<sup>th</sup>. Nonetheless, macroeconomic conditions have impacted the valuations of most of these companies which can mostly be categorized as growth stocks. This is because a recession would probably have a negative impact on both the future growth & profitability as well as the present value of future earnings via the cost of capital on all players in this industry.

### 2022 Stock Performance of Adobe & selected peers



Source: FactSet – own illustration

Out of this group of companies, Adobe is currently trading at a discount in terms of its P/E ratio of 32.8x, compared to Oracle at 38x, Salesforce at 469x, and Intuit at 62x. In general, Adobe's performance regarding earnings has been remarkable, consistently outperforming market expectations with 15 consecutive earnings that surpassed expectations.

### Trading comparables analysis

Comparing Adobe's valuation of Figma with other recent SaaS acquisitions of a similar deal size reveals a major discrepancy. The median EV/ARR multiple in the industry is 16,67x. Applying this multiple to Figma's \$400M Forward ARR results in an implied value of about \$6,7B, about a third of the actual purchase price paid by Adobe. Clearly, the 50x multiple which Adobe sees as justified for Figma is magnitudes higher than the industry benchmark for SaaS firms. A key factor in this valuation difference is clearly the growth in recurring revenues. While most other transactions of a similar deal size in the industry were acquiring companies with high double-digit sales growth, none of the comparable companies come close to Figma's numbers of 100% growth. Should Figma's rapid growth continue without an equal increase in the company's valuation, then its EV/ARR multiple will quickly decrease and converge to the industry average. Thus, it once again becomes clear that for this acquisition to be accretive in the long-term, it will first be crucial for Adobe to continue this staggering growth for at least a few more years.

## Overview of Comparables Valuation

Relative Valuation - Figma Inc.											
Company Name	Transaction Data				Financial Data (FY+1)					Valuation	
	Announcement Date	Share Price \$	EQV (\$bn)	EV (\$bn)	Forward ARR (\$bn)	ARR growth	EBITDA (\$bn)	EBITDA margin	EV/ARR	EV/EBITDA	
Qualtrics	11.01.21	18,15	11,00	12,50		1,08	41,00%	NA	NA	11,63	NA
Nuance Communicati	20.04.21	56,00	17,89	19,70		1,40	-5,00%	0,10	6,80%	14,07	206,28
Mailchimp	13.09.21	NA	NA	12,00		0,80	20,00%	0,30	37,50%	15,00	40,00
Auth0	03.03.21	NA	NA	6,50		0,20	50,00%	NA	NA	32,50	NA
Medallia	10.06.21	34,00	6,40	6,46		0,38	23,00%	NA	NA	16,91	NA
Conerstone OnDemar	24.08.21	57,50	3,85	5,20		0,83	38,90%	0,01	4,30%	6,27	571,43
GitHub	04.06.18	0,97	7,50	7,50		0,30	50,00%	NA	NA	25,00	NA
OnShape	13.10.19	NA	0,47	0,47		0,01	NA	NA	NA	47,00	NA
Sendgrid	16.10.18	31,00	NA	2,00		0,12	NA	NA	NA	16,67	NA
Estimate low				5,63 *		25th percentile peer growth	21,50%		25th percentile peer multiple	14,07x	123,14x
Implied median				6,67 *		Median peer growth	38,90%		Median peer multiple	16,67x	206,28x
Estimate high				10,00 *		75th percentile peer growth	45,50%		75th percentile peer multiple	25,00x	388,86x
Figma Inc.	15.09.22			20,00		0,40	100,00%			50,00x	

## Potential Risks &amp; Potential Upsides

The high combined market share has led to the investigations into a potential antitrust violation by the US Department of Justice (DOJ) and the Federal Trade Commission (FTC), as well as EU- and UK-regulators. As of August 2023, a DOJ-lawsuit is in preparation but has still not been filed, while EU-regulators have launched a “full-scale probe” into the acquisition. EU-regulators have also already announced that the deal will require their approval to conclude despite not meeting the revenue threshold for acquisitions with mandatory approval (USD 5bn).

Considering that the previous biggest acquisition of a private tech company in which WhatsApp was sold in 2014 for \$19B should have been blocked by the FTC in hindsight according to former employees,

regulators are very critical of the deal, as Figma is in a similar position of disrupting an industry as WhatsApp was a decade ago in the social media sector. Figma’s success in the design space stems from the company’s user-friendliness, its collaborative features, and its affordability, features that almost guarantee success in most areas of enterprise software. Similarly, WhatsApp’s reach and affordability would have enabled it to build an ecosystem competing with Facebook, just like Figma could build an enterprise software ecosystem that could compete with Adobe’s on a much larger scale than it currently does. Numerous outcries by Figma users, fearing that Adobe may make them pay for the Figma tool or discontinue the service completely, have also contributed to regulators attention to the deal. With the acquisition of Figma, Adobe would

almost have 70% market share of the global collaborative design software industry by next year. Whether or not the deal will be concluded is thus still unpredictable, and both scenarios are deemed probable.

Upon completion, the possibility of a new market entrant similar to Figma with strong growth would be a significant risk, as Adobe would then struggle to monetize Figma given a free or more affordable competitor, while also growing less than anticipated. Nonetheless, Adobe and Figma will benefit in any scenario from numerous trends such as digitalization in businesses, which has been further accelerated by the pandemic. Therefore, it is definitely possible for Adobe to continue its growth in the long term despite the current economic downturn.