Browne Jacobson

Inward investment in the UK and Ireland in 2025: The big picture

2. Challenges and risks: Barriers to inbound M&A in the UK and Ireland

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380+ C-suite leaders from £100m+ businesses across the manufacturing, real estate and construction, retail and supply chain, technology, and energy and infrastructure sectors share their optimistic outlook for M&A inward investment deals in the coming year.

While investor interest remains strong, economic uncertainties, regulatory hurdles and geopolitical shifts are creating challenges for inbound M&A.

Recent US trade tariffs alongside Brexit challenges have complicated navigation of trade barriers, regulatory divergence and labour mobility. However, the UK has recently secured trade deals with the US and EU which could mitigate some issues. Ireland presents itself as a stable gateway to European markets, though cross-border complexities remain significant.

Businesses are adapting by using policy incentives and sector-specific strengths to mitigate risks and find growth opportunities. Our survey shows investors adopting more strategic approaches, balancing short-term caution with long-term ambition. Ireland's EU access and the UK's sectoral expertise are seen as complementary strengths, suggesting both markets are well-positioned for growth despite challenges. This section examines the main regulatory challenges, key risks and broader geopolitical tensions impacting inbound M&A.

Economic and financial volatility

Economic instability remains a significant investor concern, with uneven impact across industries. In the tech sector, 49% of respondents cited economic instability and inflation as critical threats to long-term projects. Surprisingly, only 26% in the energy industry mentioned economic instability as a concern despite rising capital costs, ongoing energy storage issues and price fluctuations complicating investment decisions.

The manufacturing sector, particularly food and drink, faces distinct pressures with 38% of respondents highlighting economic fluctuations and rising energy costs as critical risks. Supply chain disruptions and escalating input costs are pressuring margins, making M&A a strategic tool for achieving scale efficiencies.

For retail, shifting consumer demand and inflation-linked price pressures were cited by 37% as primary risks to inbound M&A. With retail insolvencies rising by 12% year-on-year according to the British Retail Consortium, investors are increasingly cautious, prioritising acquisitions offering proven e-commerce capabilities and supply chain resilience.

Open responses reveal UK decision-makers are acutely aware of risks posed by currency volatility, exchange rate fluctuations and capital flight, further magnified by ongoing global economic instability.

However, the UK's sectoral strengths and targeted policy incentives continue supporting M&A activity. Overall sentiment suggests a shift from blanket caution to more targeted risk management. Investors are becoming more selective, focusing on sectors and assets offering resilience and long-term growth potential.

Regulatory divergence

Regulatory complexities remain a significant hurdle for inward M&A in both countries, with cross-border taxation, foreign investment regulations and diverging governance standards presenting substantial challenges. According to our survey, 32% of UK respondents cited regulatory uncertainty and rising compliance costs as significant barriers to M&A, compared to 30% of Irish respondents.

This difference likely results from the evolving post-Brexit regulatory landscape in the UK, where the government seeks to balance regulatory autonomy and market attractiveness. In contrast, Ireland's EU alignment provides predictability that appeals to investors, particularly those leveraging Ireland as a gateway to European markets.

Open responses highlight that regulatory and compliance risks are primary concerns for UK decision-makers engaging with international investors. Key risks include compliance with international sanctions, data protection and privacy standards, and enhanced suitability checks.

Technology and cybersecurity

As digital integration becomes central to business operations, cybersecurity risks loom large. Our survey shows 39% of respondents believe cybersecurity concerns could slow M&A activity, underlining the importance of robust digital infrastructure.

Technological disruption leads respondents' concerns, with 39% highlighting cybersecurity compliance as a top issue. Deals involving technology firms often hinge on secure data management practices and seamless digital integration, making cybersecurity critical in due diligence.

The EU's Cybersecurity Act and the UK's evolving National Cyber Strategy add compliance layers that firms must navigate. The World Economic Forum reported a 38% surge in global cybersecurity risks year-on-year, reflecting increased vulnerabilities in digital infrastructure. The introduction of the Digital Operational Resilience Act (DORA) in the EU further underscores the importance of robust digital defences in M&A considerations.

The energy sector also shows significant concerns about tech disruptions, with 30% of respondents highlighting this risk. The sector's push towards smart grid systems and AI-driven improvements makes digital compatibility crucial. Without compatible systems, post-deal integration could face delays, diminishing transaction value.

Our survey responses revealed inadequate cybersecurity measures could lead to legal liabilities, potentially derailing promising deals. Misaligned digital systems not only slow integration but also expose firms to regulatory penalties and operational risks. Alignment of systems is also impacted by AI, which is still evolving rapidly, in particular the need for advanced and specialised prompt engineering and programming discipline to create more complex, effective and aligned outputs for businesses. Investors highlighted digital alignment's importance for post-deal operational efficiency.

While technology continues driving growth opportunities in M&A, the accompanying risks require proactive management strategies. Companies with robust cybersecurity frameworks and digital compatibility across operations will be best positioned to unlock long-term value from M&A activities.

Geopolitical dynamics

Geopolitical uncertainty remains a significant concern shaping inbound M&A outlook. The UK's post-Brexit landscape plus the settling of the new 'reset' deal contrasts with Ireland's stable EU alignment, providing predictability that appeals to investors seeking a stable European market gateway.

Interestingly, while 44% of Irish respondents expect increased investor caution potentially leading to fewer deals, 38% of UK respondents believe geopolitical uncertainty might actually trigger a deal surge.

According to the Institute of Directors, the UK's sectoral strengths in technology, finance and professional services continue attracting strategic investments, particularly from US and Asia-Pacific regions. The sentiment divergence between the UK and Ireland highlights how regional market dynamics and regulatory perceptions influence investor confidence.

International trade developments are playing a crucial role. Despite a complex backdrop when the survey began with a new US president and relatively new UK Government, 69% of UK respondents reported no major risks when working with international investors. Open responses reveal a more nuanced picture, highlighting various risks impacting M&A activity. UK respondents think operational risks including communication gaps, language barriers and cultural variations pose additional hurdles.

Misaligned governance standards, last-minute pullouts and overseas profit losses were cited as operational challenges that can derail promising deals. Political risks, including national security concerns, were highlighted, with investors wary of international entities potentially tied to foreign governments. **Some respondents emphasised global landscape unpredictability, citing trust in decision-makers, scam and fraud risks, and regulatory exit concerns as factors influencing investor confidence.**

The ongoing US-China tensions, particularly around technology and data sovereignty, have spillover effects on investment sentiment. Sectors such as semiconductors, AI and critical infrastructure likely face heightened scrutiny from regulatory and national security perspectives. Reports indicate growing numbers of tech firms are restructuring supply chains to mitigate China exposure, potentially increasing inward investment and M&A activity in the UK and Ireland as firms seek more secure operational bases.

In conclusion, despite increasingly global complexities, opportunities exist for investors who can strategically navigate or capitalise upon these risks. Leveraging new trade deals, aligning with regulatory requirements and adopting proactive approaches to operational risks will be crucial for successful M&A outcomes. As geopolitical tensions persist, the ability to turn risks into strategic advantages will define the M&A landscape in the coming year.

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