

Fortifying the future: A strategic blueprint for elevating UK defence investment and support

20 March 2025  Tom Saunderson

Gaining access to finance is crucial to driving innovation within the UK defence sector but is one of the biggest hurdles to overcome.

Part of the problem is undoubtedly the difference in public perception in the UK and Europe versus the US.

Despite the changing geopolitical landscape that has rallied support and is changing perceptions, many UK investors remain hesitant.

Reputational and financial challenges for businesses pivoting to defence sector

Despite a call from over 100 Labour MPs to classify defence investments as ethical, major UK pension funds are still reluctant.

Similarly, many banks are still averse to financing defence-oriented businesses. However, with European asset managers beginning to soften their stance, there is a pressing need for UK investors to reassess their ethical investment frameworks and recognise the strategic importance of the defence sector – and quickly.

A critical insight from Browne Jacobson's '[Brave new world: Trade, innovation and investment in space, aerospace and defence](#)' event came from Dafydd Evans, MD and Head of M&A at Kroll Securities, who pointed out the stark disparities between UK and US investors when valuing UK defence assets.

US private equity firms are acquiring these assets at valuations significantly higher than those offered by UK firms—sometimes by as much as three to four more turns of EBITDA.

This discrepancy not only tempts UK businesses with higher US valuations but also poses a strategic dilemma.

Sir Keir Starmer's rhetoric about protecting against US acquisitions of UK defence assets begs the question – what are we going to do about it?

Will we see the Secretary of State blocking transactions involving US investors and buyers under the National Security and Investment Act (NSIA)?

The sentiment of those dealmakers that have been grappling with the broad application of NSIA since its implementation in 2022 is that, until now, it has only really been wielded against those with ties to our more nefarious neighbours.

With the UK walking the tightrope of a European conflict with waning US support, whilst also trying to avoid already simmering geopolitical tensions boiling over, it seems highly unlikely that the NSIA will be deployed against one of our closest allies and trade partners, not to mention the negative impact this would have on the ability of UK businesses to generate liquidity.

Competition from the US market is important, but UK investors are not currently in the same league – they need to wake up to the opportunity, recalibrate their approaches and the government needs to act to generate private sector confidence.

Government has key role in facilitating private sector buy-in

Part of this will be identifying and supporting dual-use technologies (more on that to come in our follow up articles).

The UK's commitment to elevate defence spending to 2.5% of GDP, with the news that Europe is also increasing defence spending, are steps in the right direction.

Indeed, European defence stocks are surging off the promise of large government contracts for the big players, but that needs to translate into support right across the supply chain.

Echoing the analogy provided at the 'Brave new world' event by Lewis D'Ambra, Head of Government and Regulatory Affairs at Cardiff-based space and defence manufacturing business Space Forge, it is crucial for the government to 'build the road' by providing clear policies, consistent support and investing in a capable defence industrial base, which in turn will enable the private sector to 'build the car'.

This means not only increasing spending to ramp up production for the conflict before our eyes, but adopting a more strategic approach to procurement that enhances forward visibility and reduces uncertainties that currently hinder private sector investment.

The time is ripe for a paradigm shift in how defence investments are perceived, valued and executed in Britain.

UK Investors need to shed their reservations, step up to their US counterparts and embrace the burgeoning opportunities within the defence sector, driven by ethical considerations aligned with national security imperatives.

Concurrently, the UK government must bolster this shift through supportive policies (including tax incentives), contracts and export assistance that affirms the sector's viability, ability to compete on the international stage, and its strategic importance.

Together, these actions will ensure the UK not only protects but also significantly enhances its defence capabilities in an increasingly uncertain world.

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