

**Ep #259: Dr. Josh Cochran - Associates, Partnerships  
and Practice Exit Strategies**



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## **Ep #259: Dr. Josh Cochran - Associates, Partnerships and Practice Exit Strategies**

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David Phelps: Good day everyone, Dr. David Phelps here on the Freedom Founders mastermind community and Dentist Freedom Blueprint podcast. A few episodes back I had a young dentist, Dr. Josh Cochran with us and we had such a great conversation I asked Josh if he'd be willing to come back and do a little deeper dive on some of the topics we covered. I got Josh back today. Josh, how are you doing sir?

Josh Cochran: I'm wonderful David. As always a little nervous illogically. I don't know why I get nervous for these things, but a little nervous but also very excited.

David Phelps: All right, I only give you questions I know you can answer. Well most the time, so just relax. For people who didn't catch the previous episode, you want to go back and catch those. Just to get you up to speed, Dr. Josh Cochran launched a Denovo Dental Practice, Dr. C Family Dentistry in 2014. He clawed through numerous learning opportunities, that's what I love about you Josh. You have a vision but things don't go exactly to plan so you claw through it, you figure it out. Over the first couple years things were, let's say messy, the practice now welcomes 125 new patients per month, collects \$325,000 per

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month out of six ops, have over 400 five-star reviews on Google, you're doing something right there sir.

David Phelps: To avoid the pains of hiring apathetic... When I read that once first time I thought it said pathetic, but it said apathetic, so I'm... Apathetic short-term associates... I get where you're going. He built a path to partnership. We're going to talk about that today, the path to partnership, and successfully transitioned two doctors into partners. He has implemented the EOS, the entrepreneurial operating system, we talked about that last time, with talented, compassionate leaders running the practice with Josh himself working clinically one day a week.

David Phelps: This is I think what most doctors, dentists, small business owners would like to have is what you created here. Your vision Josh, as you've mentioned before, is through the disruption of dentistry to use convenience, technology, and culture, and you want to do that through three mega practices of 20 ops each operating all specialties under one roof, extended days, hours, and more. I mean I think that's the direction we're headed here so you're right on top of it. You also, outside of dentistry because you don't have enough to do, your family runs themselves through EOS I guess. You also are very interested in developing commercial real estate, organizing opportunity zone, syndications for the tax benefit today, you facilitate the \$20 million Dental Mastermind Coop, and as I mentioned a minute ago, celebrating your marriage and three young children. Back again, Dr. Josh Cochran. Thank you so much.

David Phelps: What I know about you Josh is you're a young leader in dentistry and you're a guy that does have big vision and you're not afraid to take that vision and step out and try stuff. You're also very curious, you have a curious mind, you're in lots of different areas. It's very amazing what you do. Today I want to

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go down some of the thoughts you have on the business of dentistry. Every dentist today is facing the challenges out there today with commoditization and the decrease in reimbursement if you're dealing with PPOs and most dentists have to, to some degree, have to do that. We've got big corporate out there rolling up, we've got private equity, and every dentist whether they're young in career Josh or they're mid-career or maybe they're towards the tail end of trying to figure out where do I stand in all this, what should I do?

David Phelps: Let's start and spend a few minutes on what's been called the traditional associateship model. I'm a dentist, I've been practicing for sometimes the right reasons, sometimes the wrong reasons. I want to bring in an associate because I think that's going to solve all my problems. You went down that road, talk to us about that.

Josh Cochran: Yeah, that's a great question. I guess the question is to start is why bring on another dentist? Is that probably where the question starts?

David Phelps: Yeah, so probably that's the first thing is is I think there's got to be clarity as to... Most people don't do that. Why do I want another dentist? Then secondarily, what should the model be? Because lot of times you think, "Well I'll bring on another dentist, that'll solve all my problems. I don't want to give up control or equity, so I'm going to bring in an associate because they can do all the basic dentistry and I'll do the high end stuff." That's the concept that's out there, right? I mean we see it a lot and it doesn't work for a lot of reasons. When you brought on your first associate and you talked about that, what was your thinking? What were you thinking about? Why did you want an associate or associates?

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Josh Cochran: Yeah, great question. I think part of it is what most people feel they're too busy, and so I've got way too much going on, I've got too many patients, there's some extra dentistry to be done, and it's a waste for me to be booked out four months. It's a poor service to my patients and it's a waste, so let's bring another doctor in here and grow this. I think it really comes down to having a mindset of creating a win for that doctor coming in. I think most people fail where they think about how can this associate serve me instead of how can I serve this associate, and they set themselves up for failure from the beginning.

Josh Cochran: Like you mentioned, do some of the higher end procedures. Yes that often does happen but you can't cherry pick because then that associate resents that and they see this as short-term deal that you don't really care about them, it's not a long-term deal. In general I guess maybe we can address why the associate model is broken. We want dentists to care about patients like we care about patients. We want dentists to care about our team members and grow our team members like we care. We want them to care about the quality of care and the consistency like we care, and unless you really make them a part of the practice it doesn't matter if this person has the best intentions, you're really taking them down a path where they're not going to care as much just by the structure you set up.

Josh Cochran: I think the associate model can work, but you really need to focus on is how do I serve my associate and then put some retention strategies in place. The two retention strategies, I've seen three that work best, is a tiered compensation structure. Maybe each year they get a little bit more for tenure, the more they produce they get more, they earn higher levels of compensation. Another one I've seen that's worked well, two similar ones is one is profits interest. If they achieve these goals

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they get a percentage of the profits, so even though they're not technically an owner they're paid like an owner, they love that feeling. The third one is restricted stock units, which is very similar, they're just taxed a little differently.

Josh Cochran: I think those are the keys. Create a model that wins for the associate, serving them, and then some sort of compensation structure that grows with them.

David Phelps: Okay, well said. When you were utilizing associates in your practice were you using any of those retention strategies, and if you were then what else do you think, at that time, was missing in the structure of your associate arrangement relationship that didn't work, or did you have the wrong people? What do you think it broke down for you?

Josh Cochran: Luckily I've always been very social so I listen to a lot of people, learn from a lot of people, and I knew that I wasn't interested in the associate model at all. I don't like doing something more than once, and so like mowing the lawn, it keeps growing, I don't want to mow the lawn because it keeps growing. Same thing with associates. I don't want to invest in a doctor, and bring them in, and train my team, and train them, and then have them go. I was not interested in the associate model, so I started with building a partnership model for myself from scratch, a whole year before I even brought anyone on.

David Phelps: All right, so lets go into that. What are some of the benefits, again both ways for both you and the potential partner coming in that you think makes that a win for you, a win for them versus the associate model even with all best intentions with the associate model, why do you think it works better?

Josh Cochran: Yeah, absolutely. At first there's the feeling... I'm going to start with non-tangible. I know dentists like tangible things, so I'll

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get this one out of the way. It's the feeling of doing things with other people, the teamwork, building something together, having a colleague to bounce cases off each other, that togetherness. That's the soft one. The more tangible stuff is ownership hats. Why do dentists have a high suicide rate, why are dentists stressed out? Because we're one of the few businesses where dentists try to do everything. HR, bookkeeping, marketing, accounting, compliance, we have to be experts in everything.

Josh Cochran: If you have multiple partners you can all figure out what your passions and proficiencies are, what you're good at, and what do you enjoy, and those people tend to take ownership of that area. Then the other owners take ownership of different areas. You got to split those ownership hats and responsibilities. Two is I have multiple doctors, you can cover for each other when you want to take vacations, CE, those kind of things. You don't take an overhead hit when that happens. Another one is specializations. If I'm not having to do everything I can specialize things, implants, sinus lifts, wisdom teeth, that's what I tend to do, sedation. One of my partners is very interested in ortho, that's his passion. Each of us can specialize in what we enjoy. We don't have to do everything.

Josh Cochran: Yet at the same time, you're keeping that revenue in-house and providing better service to the patients because you're not referring them all over town to strangers. Overhead, the more providers you have in-house, if you have good systems in place your overhead's going to be lower, which helps with compensation. You can make more in a partnership than you can solo if you have the right systems in place. Then stress reduction. I think that's a big one too. Also as you get bigger you tend to develop leadership teams, which is great because the leadership teams also take stress off the doctors.

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Those are a few of the advantages of partnerships, there's a lot more out there.

David Phelps: In trying to put together a partnership, the qualities, the vetting, the filtering of the message of bringing in potential candidates, that's a huge part of this. Do you use any particular methodology for doing initial screening and once you get to certain step, potential candidate you've had certain conversations, exchange certain materials. Can you give us a few of the steps, and another piece that we haven't touched on yet, but the spouse component. I know that's a huge part. The doctor may be a perfect fit and love the opportunity but typically oftentimes there's a spouse involved and how early on do you engage that person in the conversation? Even along with your wife. Talk to us a little bit about that because that's a big part of it.

Josh Cochran: Yeah, absolutely. I mentioned this last time and I always got to say this. My wife is amazing. She runs the house, she works two days a week as a dentist in the dental practice. I couldn't do any of this without her.

David Phelps: I'm going to have Lindsay edit this clip out and send it to her with a ribbon on it. She can frame this up.

Josh Cochran: Lindsay's doing the same stuff for you, right?

David Phelps: Exactly.

Josh Cochran: You can't be David Phelps without her taking care of all this stuff, exactly.

David Phelps: That's right.

Josh Cochran: I think the first step is define who you want in a candidate. I went into business school, so we're used to working with

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teams, we enjoy that. I played sports growing up. A lot of dentists, you get into dental school and you do a team project and they're like, "Oh I've never done one of these before." Dentists are typically science, engineering background, they're not trained to work in teams. You really got to define who you want as a candidate, what are their values, what are their vision? We mentioned before, I don't know if I mentioned this last time, the four T's to a successful partnership.

Josh Cochran: You need to have one captain of the ship, you need to have similar work ethic, you need to have similar risk tolerance, and you have exit strategies in place. The values got to align, vision's got to align, so you really need to define who you want. Then right an ad to filter for who you want. Once you start getting a pool of candidates, I have a two, three page interview that I do over the phone, try to flush out some things like clinical skills, judgment, how they think through stuff. Then really, you talked about the why, if I really ask them where do they want to be in five years, what's their ideal vision for them and their wife. I start to flush out what works for them because it doesn't matter how nice of a situation I create, if what I'm creating doesn't align with their vision there's no point.

Josh Cochran: If this has gone well, we had an interview and then maybe another one or two phone interviews, oftentimes I will meet with them and the spouse, have breakfast with me and my wife or maybe with a partner and their wife, very informal. Most people don't make logical decisions, they make emotional decisions. If you have this meal with these people and your gut and your wife's gut say, "Hey this is great," because women are very intuitive, and then likewise the dentist and their spouse if they like, if it feels right to them then that's really going to seal the deal. The last thing I haven't mentioned here is we actually have my team interview the doctors too and take them out to

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lunch. Same kind of thing, women are very intuitive and they'll let you know if this doc is a good fit for the practice.

David Phelps: Yeah, those are great tips. As you said earlier, the amount of work that's done on the front end, for hiring anybody, bringing anybody into the team, in this case we're talking about a partnership, a potential partnership which is a big, big deal. The other side we talked a minute ago about associateships, the same amount of work on the front end should be done for an associateship, but you said it well, it still even with the best intention, the best model, the best retentive strategies, most doctors, not all but most doctors eventually want their own thing. Even with the best intention the associateship becomes a turnstile. You go through all this effort and you got to think about doing it again every couple years, that's what wears you down.

David Phelps: Your model is let's get someone in, the right person, they get some skin in the game meaning they've got a financial interest, they bought in and now we've got something we can run with outside of a disability or some crisis event, we've got a team here that's going to run to a certain point. Your culture you have expectations that are set together, you have exit strategies, you've got different captains, you're investing in this team, you use EOS, so you're investing in this team and you're helping these typically younger docs who have expressed a desire to work with you, they see the potential, but still we know as you said earlier, dentists we weren't brought up to be collaborative. It was always on our own backs to do the work, to get through school. Now we got to learn a new skillset, and I know because of your knowledge base you're imparting that in the whole team and showing how collaboration works to the benefit of all.

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Josh Cochran: Absolutely and may I add one point to this?

David Phelps: Absolutely.

Josh Cochran: Absolutely agree with everything you said, and one thing that most people don't see in dentistry is your ideal candidate most people think, "Oh two to five years out of school, maybe had some DSO experience to get some good systems in place, to get some good training, understand things." Maybe a poor situation so they appreciate you. I agree with all of those things. One very smart individual, Steve Hatcher our of North Carolina.

David Phelps: I know Steve, yeah.

Josh Cochran: You know Steve, okay.

David Phelps: Yes, absolutely.

Josh Cochran: He mentioned to me that probably the ideal doctor is the one who is 50 and divorced. He's run his own practice, he knows all the challenges, he really appreciates what you're bringing, he's very experienced clinically, he or she, and they got to work because they just got divorced. I thought that was a very unique and correct perspective. There's not a lot of those out there and you don't wish divorce on anyone, but just an interesting thought.

David Phelps: Probably my best associate over the years fit that category except he wasn't divorced. He had run the practice, he was in his 50s, but moved to another place where they wanted to live and finish out. He didn't want to start another practice so I had probably a four year run rate with a doctor that was in his 50s and he fit those parameters very well. He appreciated, he knew what the workload was for an owner and he was glad to

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come in and focus on being a stream, being kind to patients and it was super, it was super.

Josh Cochran: Beautiful win win.

David Phelps: Was all the way. One thing people probably want to hear just a little bit on before we move to our last and final topic, which will be the exit strategy, would be where do you market? Where would you go, where do you go if you're looking for a potential partner? Not just associate, maybe could be both. Where would you go? What kind of media would you utilize today?

Josh Cochran: Yeah, I do actually have a list of 10 items that I often reference. I'll try to come up with it off the top of my head. One is attend your local district dental society meetings. The next is make an ad in your local district dental society. Next is make a state ad for the state dental classifieds. Then there's software, Indeed. Also I would advertise in other states, so what I've noticed is we're adding now pediatric and ortho partners. Well Texas has a very large Medicaid pedo system and there's a lot of dentists working on kids down there that are looking for a better quality of life and better compensation. Texas, much like in college football, is also a feeder for pediatric kids focused dentists across the country, so put an ad in Texas.

Josh Cochran: Other things you can do that I've done. One interesting one that is a little gray hat, so I'll toss it out there just to open people's minds up. I haven't done this but I thought it was funny, was go to all the local DSOs in town, take the cards off the front desk of all the dentists who work there and email them. I thought that was pretty interesting. The much more white hat thing one of my best friends in this world, he's a dentist out of Upstate New York, wonderful man.

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Josh Cochran: He built a system this year where he asked some questions of all his current doctors about and had them give him names of dentists that they thought might fit the culture of their group. Then he had a campaign where he sent emails, text messages, phone calls, different types of communication, and then took notes of all the calls and contacts and then developed these leads into a pipeline of future dentists. As you know, these are friends of friends so the filters are already in place so you're getting a much higher quality pool of people.

David Phelps: Excellent, excellent. All right, let's move on to exit. I know you're not ready to exit anytime soon, but you've got your eye on the ball of what you think your exit's going to be with your partners. Give us a lay of the land if you can Josh. What's available today whether you're solo in practice today still, you're building multiple practices, what are some of the differentiation you see in the exit strategies today?

Josh Cochran: Okay, so first one is selling to a general dentist, that's pretty typical. You basically sell. When people are ready to exit they think about two things typically in my mind. David you know more of this than me, but typically I think legacy and then what can I get for my practice. Are those the two items? Is there anything else?

David Phelps: No, and I think certainly what can they get for the practice, and you'll talk about it here in a minute I know, but the difference between selling to a private party versus DSO. There's baggage with the second, so yeah you're right. Those are part of the keys.

Josh Cochran: Okay, so lets say it's legacy, it's what can I get for dollars, and then also care for patients and team, are they going to take care of my patients and team, which is tied to legacy. Your first one is selling to another dentist, that's the typical thing we all

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know. Will they carry on their legacy? Well it really depends. Your legacy really depends on how you filter that person. Are you interviewing, passing on to someone who has similar vision and values to you? Same with care for patients and team, do they have the same values, and then also you have to test their clinical quality. The last one dollars, well you can look at it two ways. One is percent of last years collection, specifically you're getting 60% to 80% in most areas across the country unless you're in an urban area, San Francisco, maybe you're getting 110%. Toronto I heard in a post the other day was 150% of collections, so it depends on your area.

Josh Cochran: If you're talking profit or EBITDA, you're typically talking three and a half to four times your property is what you're selling to a general dentist for, another dentist. That's one exit strategy. The next exit strategies, these are where it gets a little bit more complex. The next most popular one is selling to a DSO. Legacy again in patient care and teams, DSOs are not the same. I think we mentioned this last time. There's version one DSOs that were focused on the bottom line. There are version three DSOs that are focused on patient experience, doctor quality of life and experience, team experience. You really got to find the dental group that you want to sell to.

Josh Cochran: Financially DSOs, if you just sold your practice to them 100% typically ranges here are I would say similar to selling to another dentist. Why sell to a DSO? Well they usually make it a little easier. They have cash in place, they can buy your practice quickly. They might have a little post-sale incentive, or maybe they'll pay a little above market. Maybe they'll pay you an extra 10% more. Maybe you don't need a broker so you save yourself 10% to 15% there. Other DSOs they have this philosophy where you're going to share in the benefits when this DSO goes and looks for a new investor, whether it's private

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equity or a billionaire or what not. They'll say, "Hey, we can bring in an investor at 12X, three times what you'd get selling on your own." What these dental groups do is they take the lions share. They buy your practice, usually 60% to 80% of it, so when they do get this equity event from private equity firm or whatever at 12 or 13 EBITDA, whatever the number is, you're only getting that on 10% to 20% of your practice.

Josh Cochran: I use a term that I probably made up. David you would understand this because you have a finance background but I use the term effective EBITDA. How many times your profit are you actually getting? They might come and buy 60% to 80% of your practice at a four X or a five X. Yeah you sell that 10% to 20% for 12 to 13 X, but at the end of the day you're only getting a four and a half to five and a half EBITDA. Plus you got to stick around two years afterwards and that's two years of profit you could have gotten. You're five X, now you stick around two years and don't get a profit is really a three and a half X. Maybe you were just as good selling to another doctor at three and a half X and walking away.

Josh Cochran: You really got to have somebody, if you're going to sell to a DSO, who knows what's going on and can guide you through it. It's so easy to get lost in the details.

David Phelps: Would you say it's easier to sell today a practice that is mostly PPO busy relatively efficient with that PPO versus a more boutique and primarily fee for service practice, and maybe that doctor with the fee for service has done that because he or she has reputation, long standing in the community, some hiring of services, really doesn't do much with PPO, maybe not at all. What are some of the constraints or opportunities with those two different kinds of models? Any thoughts there?

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Josh Cochran: I've seen zero difference on demand. I think dentists want to get in and have ownership and I think both are attractive. Obviously a fee for service might be a little more attractive, especially due to the higher profit margins. But I think both are very much in demand. Have you noticed something different David? Would you look around?

David Phelps: Well I was going to say in terms of a DSO purchasing a fee for service that's highly reputation based.

Josh Cochran: Ah.

David Phelps: That's what I'm looking at.

Josh Cochran: Yes.

David Phelps: I'm thinking fee for service that's more boutique probably going to have to go more for the private sale and try to find that unique, more unique doctor who's going to carry on the legacy, because that legacy component's going to be harder to maintain. Processes and systems are only going to do so much. The doctor is a big part of that fee for service higher end, if you want to call it that, practice. Does that make sense?

Josh Cochran: Yeah, yeah. I agree, I think when a DSO or private equity firm purchases a practice they analyze the service mix and what makes that practice tick. If they have serious concerns that they can replicate that when the founding doctor leaves then yeah, they're going to adjust the purchase price a little bit based off of that.

David Phelps: All right, let's go to the third option then, the third model.

Josh Cochran: Yeah, so the third model is very niche, this is 1% of dentists. I'll be brief on this. Is you can go directly to a private equity firm and say, "Hey I want to start my own DSO,"

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especially if you have a couple locations. Typically they're going to give you a little higher multiple there, maybe seven, eight. They're going to create an incentive package for you as you grow the DSO. You're going to get even more of a windfall. Some drawbacks to that is they're going to work you hard, they're going to expect you to work like private equity people, 70 hours a week. Your meetings are on Sundays, not during the week. They're going to have usually a couple people who are supporting you, which is cool to help you get there. Still though, you're giving the lions share of things to them always when you partner with them from the beginning.

David Phelps: All right, let me finish today with this question for you. You're building towards an exit strategy at some point down the road with ideally three mega practices. What are your thoughts in terms of the economy changes, the market changes, go back to 2008 when credit markets tightened up. Does that change your thinking if you've got a runway X number of years, change your thinking in terms of what the economic status may be at that time, or do you bide your time knowing you've got a model, whatever it is, it runs, it's an efficient business, and you'll pick the time when it's most ideal, in your circumstances, to exit. What are your thoughts there?

Josh Cochran: Yeah, that's a great question. I think about this a lot and I think the answer for me is both. Right now we know that the multiples in dentistry are very high, let's say 12 to 13. I've seen 18, but 12 to 13's a good number if your group has \$20 million in EBITDA as a total 12, 13's very easily achievable. I've heard vets like 15 or 17 right now, so we're not the hottest market but we're definitely a hot market. I have a large group across the country of dentists, we share all the time, we take care of each other. It would make me sad for my colleagues to work their butts off and miss an opportunity like this.

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Josh Cochran: I'm committed by January 1st, 2026 to create financial freedom for myself and my dental buddies because of this reason. If we can achieve financial freedom now why not do that? Then after that we can decide what we want to do. Do we want to continue to be dentists? Do we want to be dental coaches? Do we want to get into another career? Do we want to become a gold coach at the high school? Now we have the opportunity to choose what we want to do at that time. Just seems like why not take advantage of this opportunity while it's there.

David Phelps: It is a unique opportunity Josh and I think eyes wide open that each person, wherever they are on their career path. Young with debt and mid-career maybe trying to figure it out and enders. There's opportunities here and you got to figure out which lane is yours. I mean be intentional about it, do the study, talk to people who have gone down different pathways. Don't just go default, meaning wait until "the end" and try to figure it out, it's too late. Like I said, you can free yourself, whatever that means to you. You can free yourself earlier. Doesn't mean you leave dentistry. Like you said, you can stay involved, you can have ownership, you can mentor.

David Phelps: I mean heck, it's wide open. You don't have to do the same thing. Traditionally we think about in career paths, professional practices, dentistry. You get in and you do it for 30, 35, 40 years. You don't have to do it that way. If you love it that way and you got a model, run with it, but today the world is wide open, don't be constrained by what we used to think it had to be, the traditional thinking. I think you throw it out the door today and get to live your life the way you want to. That's what I love and that's why I like talking to people like you because you're thinking that way at a young age.

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Josh Cochran: Should I mention the fifth option that I'm working on?

David Phelps: Yeah, go ahead.

Josh Cochran: This is a concept, I'm not the first one to think of it, but my colleagues and I are doing it. I also saw recently one of the large orthodontic organizations in the country is doing this as well. If dental groups are going for 12 to 13 X and dentists are only getting five to five and a half X, effective EBITDA, why don't we group up together and have a target of at least 10 X? Now we've just doubled the equity we can harvest, which makes financial freedom much easier for us to achieve at younger ages.

David Phelps: Yes.

Josh Cochran: That's the last option and I would really... If you want to exit this year. Okay great, go with one of these DSOs that's rapidly growing, that's going to have an equity cap this year or the next year, absolutely do that. But if you're wanting to exit in the next five years I would seriously consider getting into one of these more grass roots groups that is really trying to deliver 10 X to the doctors as opposed to half that.

David Phelps: Great thoughts today, great input. Best place for people to reach out and connect with you Josh?

Josh Cochran: Sure, cell phone is 206-755-6436. Email is River, R-I-V-E-R Cochran, C-O-C-H-R-A-N at gmail.com. Happy to chat.

David Phelps: Okay, all right. Well everybody listening right now call Josh right now on his cell phone. All right? We're going to blow you up buddy.

Josh Cochran: I have some filters on there. My friends are always like, "We never get ahold of you."

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## **Ep #259: Dr. Josh Cochran - Associates, Partnerships and Practice Exit Strategies**

David Phelps: I figured, I figured.

Josh Cochran: See what happens.

David Phelps: Yeah, thanks for calling, step in line, take a number, I'll get back to you. I got it, I understand. All right, very good. Had fun today Josh. Thanks as always. Appreciate your input and all the things you're doing. You're a great thought leader.

Josh Cochran: Oh I'm nothing compared to you David. I think you're opening people's minds to a better quality of life and I appreciate you for blazing that trail for the rest of us.

David Phelps: It's a fun ride. All right, thanks Josh.

Josh Cochran: My pleasure.

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